

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an increase in water and  
wastewater rates in Charlotte, Highlands, Lake,  
Lee, Marion, Orange, Pasco, Pinellas, Polk,  
and Seminole Counties by Utilities, Inc. of Florida

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Docket No. 20200139-WS

DIRECT TESTIMONY

OF

DYLAN W. D'ASCENDIS, CRRA, CVA

on behalf of

Utilities, Inc. of Florida

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1     **I.     INTRODUCTION**

2     **Q.     Please state your name, profession and address.**

3     A.     My name is Dylan W. D’Ascendis. I am a Director at ScottMadden, Inc. My business address  
4           is 3000 Atrium Way, Suite 241, Mount Laurel, NJ 08054.

5     **Q.     State briefly your educational background and experience.**

6     A.     I have offered expert testimony on behalf of investor-owned utilities before 19 state regulatory  
7           commissions in the United States, one Canadian province, and one American Arbitration  
8           Association panel on rate of return issues including, but not limited to, common equity cost  
9           rate, rate of return, valuation, capital structure issues, relative investment risk, and credit quality  
10          issues.

11                 On behalf of the American Gas Association (“AGA”), I calculate the AGA Gas Index,  
12                 which serves as the benchmark against which the performance of the American Gas Index  
13                 Fund (“AGIF”) is measured on a monthly basis. The AGA Gas Index and AGIF are a market  
14                 capitalization weighted index and mutual fund, respectively, comprised of the common stocks  
15                 of the publicly traded corporate members of the AGA.

16                 I am a member of the Society of Utility and Regulatory Financial Analysts (“SURFA”).  
17                 In 2011, I was awarded the professional designation "Certified Rate of Return Analyst"  
18                 (“CRRRA”) by SURFA, which is based on education, experience, and the successful completion  
19                 of a comprehensive written examination.

20                 I am also a member of the National Association of Certified Valuation Analysts  
21                 (“NACVA”) and was awarded the professional designation Certified Valuation Analyst  
22                 (“CVA”) in 2015.

23                 I am a graduate of the University of Pennsylvania, where I received a Bachelor of Arts  
24                 degree in Economic History. I have also received a Master of Business Administration with  
25                 high honors and concentrations in Finance and International Business from Rutgers University.

1           The details of my educational background and expert witness appearances are shown  
2           in Exhibit DWD-1.

3   **Q.    On whose behalf are you presenting this testimony?**

4   A.    I am presenting this testimony and appearing on behalf of Utilities, Inc. of Florida. (“UIF” or  
5           the “Company”), the applicant for rate increase in the present docket.

6   **Q.    What is the purpose of your direct testimony?**

7   A.    The purpose is to provide testimony related to the return on investor-supplied capital, including  
8           the appropriate return on common equity (“ROE”) which the Company should be afforded in  
9           order to have the opportunity to earn a fair return on its property used and useful in the public  
10          service. I am presenting testimony regarding the appropriate return on investor-supplied  
11          capital associated with UIF’s operations because the Company does not believe that in this  
12          case the use of the Florida Leverage Formula (the “FL ROE Formula”) accurately reflects the  
13          return on equity necessary to afford it an opportunity to earn a fair return.

14 **Q.    Are you aware of the FL ROE Formula?**

15 A.    Yes. Our firm participated in Docket No. 20190006-WS and Ms. Pauline M. Ahern, CRRA  
16          sponsored comments on behalf of UIF.

17 **Q.    What would UIF’s indicated ROE be using the FL ROE Formula as specified in Order  
18          No. PSC-2019-0267-PAA-WS?**

19 A.    Given UIF’s 13-month common equity ratio of 49.39%<sup>1</sup> in this proceeding, the indicated ROE  
20          using the FL ROE Formula would be 9.69%.<sup>2</sup>

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<sup>1</sup> Excluding customer deposits and deferred tax liabilities.

<sup>2</sup>  $ROE = 6.05\% + (1.80 / \text{Equity Ratio}) \rightarrow 9.69\% = 6.05\% + (1.80 / 49.39\%)$ .

1 **Q. Does the 9.69% ROE produced by the FL ROE Formula reflect the cost of common**  
2 **equity of water utilities, specifically, UIF, at this time?**

3 A. No. As I will demonstrate throughout this testimony, an ROE of 9.69% understates the current  
4 investor-required return for both water and wastewater utilities generally and UIF specifically.

5 **Q. What is your recommended common equity cost rate?**

6 A. I recommend that the FL PSC authorize the Company the opportunity to earn an overall rate  
7 of return on common equity of 11.75%. My recommended ROE applied to the 13-month  
8 average balances of investor-supplied capital<sup>3</sup> based on UIF's parent, CORIX Regulated  
9 Utilities, Inc.'s ("CRU-US" or the "Parent"), consisting of 45.58% long-term debt at an  
10 embedded cost rate of 5.78%, 5.03% short-term debt at an embedded cost rate of 4.04%, and  
11 49.39% common equity results in a return on investor-supplied capital of 8.63%, shown on  
12 page 1 of Schedule 1 and Table 1 below:

13 **Table 1: Summary of the Return on Investor-Supplied Capital**

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate</u>
Long-Term Debt	45.58%	5.78%	2.63%
Short-Term Debt	5.03%	4.04%	0.20%
Common Equity	<u>49.39%</u>	11.75%	<u>5.80%</u>
Total	<u>100.00%</u>		<u>8.63%</u>

14 **Q. Have you prepared an exhibit that supports your recommended return on investor-**  
15 **supplied capital?**

16 A. Yes, I am sponsoring Exhibit DWD-2 which summarizes my analysis supporting the  
17 reasonable rate of return, which in my opinion applies to UIF in this rate case. Exhibit DWD-  
18 2, containing Schedules 1 through 8, was prepared by me or my staff under my supervision  
19 and control.

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<sup>3</sup> Includes long-term debt, short-term debt, and common equity and excludes customer deposits and accumulated deferred income taxes.

1     **II.     SUMMARY**

2     **Q.     Please summarize your recommended common equity cost rate.**

3     A.     My recommended common equity cost rate of 11.75% is summarized on page 2 of Schedule  
4           1. Because UIF’s common stock is not publicly traded, a market-based common equity cost  
5           rate cannot be directly observed for the Company. Consequently, I have assessed the market-  
6           based common equity cost rates of companies with relatively similar, but not necessarily  
7           identical risk, *i.e.*, a proxy group, for insight into a recommended common equity cost rate  
8           applicable to UIF. Using companies of relatively similar risk as proxies is consistent with the  
9           principle of fair and reasonable rates of return required by the *Hope*<sup>4</sup> and *Bluefield*<sup>5</sup> decisions,  
10          adding reliability to the informed expert judgment necessary to arrive at a recommended  
11          common equity cost rate.

12                 However, no proxy is completely identical in risk to any single entity. Accordingly, a  
13                 comparison of relative risk between UIF and a proxy group of publicly traded water utilities  
14                 (“Utility Proxy Group”), discussed in further detail later in this testimony, must be made to  
15                 determine whether any adjustments to the Utility Proxy Group’s indicated common equity cost  
16                 rate are justified or necessary.

17                 In determining my recommended common equity cost rate, I applied several well-  
18                 recognized cost of common equity models (*i.e.*, Discounted Cash Flow (“DCF”) Risk Premium  
19                 Model (“RPM”), and Capital Asset Pricing Model (“CAPM”)) to the market data of a Utility  
20                 Proxy Group whose selection will also be discussed below. In addition, I applied the DCF  
21                 model, RPM, and CAPM to a proxy group of non-price regulated companies comparable in  
22                 total risk to the Utility Proxy Group (“Non-Price Regulated Proxy Group”). The results derived  
23                 from each model are summarized as follows:

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<sup>4</sup>     *Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

<sup>5</sup>     *Bluefield Water Works Improvement Co. v. Public Serv. Comm’n*, 262 U.S. 679 (1922).

**Table 2: Summary of Common Equity Cost Rate**

	<u>Utility Proxy Group</u>
Discounted Cash Flow Model	9.07%
Risk Premium Model	10.91%
Capital Asset Pricing Model	10.90%
Cost of Equity Models Applied to Non-Price Regulated Proxy Group	<u>11.48%</u>
Indicated Common Equity Cost Rate before Adjustment	10.75%
Business Risk Adjustment	<u>1.00%</u>
Recommended Common Equity Cost Rate	<u>11.75%</u>

After reviewing the cost rates based on these models, I conclude that the indicated common equity cost rate is 10.75% before any adjustment for business risks arising from UIF's greater unique business risks relative to the Utility Proxy Group as discussed in more detail below. Thus, the indicated common equity cost rate of 10.75% based solely on the Utility Proxy Group must be adjusted upward by 1.00% to reflect UIF's increased unique business risk, as noted above. The details of this adjustment will be discussed below. After adjustment, my recommended Company-specific risk-adjusted common equity cost rate applicable to UIF is 11.75%.

**III. GENERAL PRINCIPLES**

**Q. What general principles have you considered in arriving at your recommended common equity cost rate?**

A. The cost of common equity is the return investors require to make an equity investment in a given firm. From the firm's perspective, that required return, whether it is provided to debt or equity investors, has a cost. Collectively, the "cost of debt" and the "cost of equity" are referred to as the "cost of capital."

The cost of capital is based on the economic principle of "opportunity cost," meaning that investing in any asset or security implies a forgone opportunity to invest in alternative

1 assets or securities. The opportunity cost of an investment should equal the return available on  
2 investments of comparable risk.

3 Although both debt and equity have costs, those costs differ fundamentally. The cost  
4 of debt is often contractually defined and can be directly observed in the market as the interest  
5 rate or yield on debt securities. In contrast, the cost of equity is not normally contractually  
6 defined nor can it be directly observed in the market. Rather, because common equity investors  
7 have a claim on a firm's cash flows only after debt holders are paid, it is the uncertainty (or  
8 risk) associated with the equity investors' lower priority or junior position to receive those  
9 residual cash flows compared to debt holders that determines the cost of equity. In other words,  
10 because common equity investors bear this "residual risk," they require higher returns than  
11 debt holders. In that sense, common equity and debt investors are distinct: they invest in  
12 different securities, face different risks, and require different returns. That is not to say that the  
13 risks facing debt and equity investors are completely separate and distinct; the two may share  
14 common risks, but only to a point. Therefore, commentary from both debt and equity analysts  
15 is instructive and helps inform the determination of the required return.

16 According to the basic financial principle of risk and return, the investor-required  
17 return on investment is a function of the level of investor-perceived risk as reflected in the  
18 market prices paid by investors. The higher/lower the investor-perceived risk, the higher/lower  
19 the investor-required return. The investor-required return is forward-looking, or expectational,  
20 as it is the return which investors expect to receive in the future for investing capital today and  
21 is based on expected economic and capital market conditions.

22 In unregulated industries, the competition of the marketplace is the principal  
23 determinant of the price of products or services. For regulated public utilities, like UIF,  
24 regulation acts as a substitute for marketplace competition. A sufficient level of earnings is  
25 required to assure that the utility can: (1) fulfill its obligation to provide safe and reliable service



1 at all times; (2) maintain the integrity of presently invested capital through future reinvestment  
2 and (3) attract needed new capital at a reasonable cost and on reasonable terms in competition  
3 with other firms of comparable risk. This is consistent with the previously noted rate of return  
4 standard established by the Supreme Court in the *Hope* and *Bluefield* cases.

5 In rate base/rate of return regulation, the authorized return on common equity is defined  
6 as the investor-required return. In turn, the investor-required return is defined as the return  
7 required by the investor on the funds invested in the publicly traded common stocks of firms.  
8 As stated previously, the cost of common equity is not directly observable in the capital markets  
9 since there is no contractual basis or obligation on the part of a firm to provide a return to its  
10 common shareholders, unlike the contractual coupon or interest rate on its debt obligations.  
11 Therefore, the cost of common equity must be estimated from market (economic and financial)  
12 data, using financial models developed for that purpose, such as the CAPM, DCF, and RPM.  
13 Therefore, my recommended common equity cost rate is based on the marketplace data of a  
14 proxy group of utilities that are as similar in risk as possible to UIF based on selection criteria  
15 discussed below.

16 Because empirical financial models for determining the cost of common equity are  
17 subject to limiting assumptions or other constraints, most finance texts recommend using  
18 multiple approaches to estimate the cost of common equity. Because of this, generally,  
19 regulatory commissions rely on multiple financial models in determining the allowed ROE for  
20 regulated utilities. As a practical matter, no individual model is more reliable than all others  
21 under all market conditions. The use of multiple common equity cost rate models adds  
22 reliability to the estimation of the investor-required return.

23 Using both the market data of proxy groups of similar risk and multiple common equity  
24 cost rate models adds reliability to the informed expert judgment used in estimating the  
25 common equity cost rate. Therefore, it is prudent and appropriate to use multiple

1 methodologies to mitigate the effects of limiting assumptions and inputs associated with any  
2 single approach.

3 **A. Business Risk**

4 **Q. Please define business risk and explain why it is important to the determination of a**  
5 **reasonable rate of return.**

6 A. The investor-required return on common equity reflects investors' assessment of the total  
7 investment risk of an individual firm. Total investment risk is often discussed in the context  
8 of business risk and financial risk.

9 Business risk refers to the basic viability of a business, the question of whether a  
10 company will be able to generate sufficient revenue to cover its operational expenses and cost  
11 of capital. Financial risk is related to the company's ability to generate sufficient cash flow to  
12 be able to make interest payments on financing or to meet other debt-related obligations.

13 Examples of the business risks generally faced by water utilities include, but are not  
14 limited to, the legal and regulatory environment, mandatory environmental compliance  
15 requirements, customer mix and concentration of customers, service territory economic  
16 growth, declining per customer water use, risks and uncertainties of water supply limitations,  
17 operations, capital intensity, size, the degree of operating leverage, and the like, all of which  
18 have a direct bearing on earnings.

19 Although analysts, including rating agencies, may categorize business risks according  
20 to individual categories, as a practical matter they are inter-related and are not wholly distinct  
21 from one another. For determining an appropriate return on equity, the relevant issue is where  
22 investors see the subject company as falling within a spectrum of risk. To the extent investors  
23 view a company as being exposed to additional risk, the required return will increase.

24 For regulated water utilities, business risks are both long- and near-term in nature.  
25 Whereas near-term business risks are reflected in the year-to-year variability in earnings and

1 cash flow brought about by economic or regulatory factors, long-term business risks reflect the  
2 prospect of an impaired ability of investors to earn a return on and of their invested capital.  
3 Moreover, because water utilities accept the obligation to provide safe, adequate, and reliable  
4 water service at all times (in exchange for the opportunity to earn a fair and reasonable return  
5 on their investment), they generally do not have the option to delay, defer, or reject required  
6 long-term capital investments in order to comply with Safe Drinking Water Act (“SDWA”)  
7 standards. Those investments are generally capital-intensive, and water utilities therefore  
8 cannot choose to avoid raising external funds during periods of capital market distress.

9 Because water utilities invest in long-lived assets, long-term business risks are of  
10 considerable concern to equity investors. That is, the risk of not recovering the return on and  
11 of their investment extends far into the future. But, the timing and nature of events that may  
12 lead to losses are also uncertain. Consequently, those risks and their implications for the  
13 required return on equity tend to be difficult to quantify. That does not mean, however, that  
14 the risk is of no consequence to investors. Analysts may apply, for example, simulation-based  
15 methods to assess the potential risk, but in the final analysis (like the investors that commit  
16 their capital) regulatory commissions, like the FL PSC, must review a variety of quantitative  
17 and qualitative data, applying their reasoned judgment to determine how long-term risks weigh  
18 in their assessment of the market-required return on equity.

19 **Q. What business risks does the water utility industry in general face today?**

20 A. Water is necessary for life and is the only utility product intended for customers to ingest.  
21 Consequently, water quality is of paramount importance to the public health and well-being of  
22 customers. As a result, water utilities are subject to additional and increasingly stringent public  
23 health and safety regulations. Beyond health and safety concerns, customers also have  
24 significant aesthetic (*e.g.* taste and odor) concerns regarding the water delivered to them, with  
25 regulators paying close attention to these concerns because of the strong reactions they evoke

1 in consumers.

2 Increasingly stringent environmental standards necessitate additional capital  
3 investment in the treatment and distribution of water, thereby increasing the pressure on water  
4 utilities' free cash flow through increased capital expenditure for infrastructure, repair, and  
5 replacement. In addition, the United States Environmental Protection Agency and individual  
6 state and local environmental agencies continually monitor potential contaminants in the water  
7 supply and promulgate or expand regulations when necessary. In the course of procuring water  
8 supplies and treating water so that it complies with SDWA standards, water utilities have an  
9 ever-increasing responsibility to be stewards of the environment from which supplies are  
10 drawn in order to preserve and protect essential natural resources.

11 Water utilities are typically vertically engaged in the entire process of acquiring supply,  
12 producing, treating, and distributing water, serving both a production function and a delivery  
13 function. Accordingly, water utilities require significant capital investment, not only in  
14 transmission and distribution systems, but also in sources of supply (surface and groundwater),  
15 production (wells), treatment, and storage. Significant capital investment is necessary to serve  
16 additional customers and to replace aging systems, creating a major risk factor for the water  
17 utility industry.

18 *Value Line Investment Survey* ("*Value Line*") observes the following about the water  
19 utility industry:

20 Until the past decade, or so, both municipal and investor-owned utilities didn't  
21 sufficiently invest in keeping pipelines and other assets in proper condition. As  
22 a result, the average age of pipelines in the U.S. is estimated to be between 50  
23 and 75 years. Utilities and regulators have realized that more funds would have  
24 to be allocated to replacing and modernizing large portions of the nation's water  
25 infrastructure. That's why this group's construction budget is large, though  
26 manageable. Authorities also realize that water bills were kept artificially low  
27 for years, especially in relation to other vital utility services, and have to be  
28 gradually raised.

29 \*\*\*

1 Probably the prime reason for water utility stocks performing so well over the  
2 past five years has been due to constructive regulation. Unlike, electric utilities,  
3 for example, both sides are basically in agreement that upgrades are required and  
4 ratepayers[\*] bills will have to [be] raised. Investors should be aware of what  
5 can happen when authorities and utilities do not work as partners (i.e. the Electric  
6 Utility Industry). As of now, we see no signs of rifts between the water group  
7 and regulators.<sup>6</sup>

8 **Q. Please discuss the capital intensity of the water utility industry relative to other utility**  
9 **industries.**

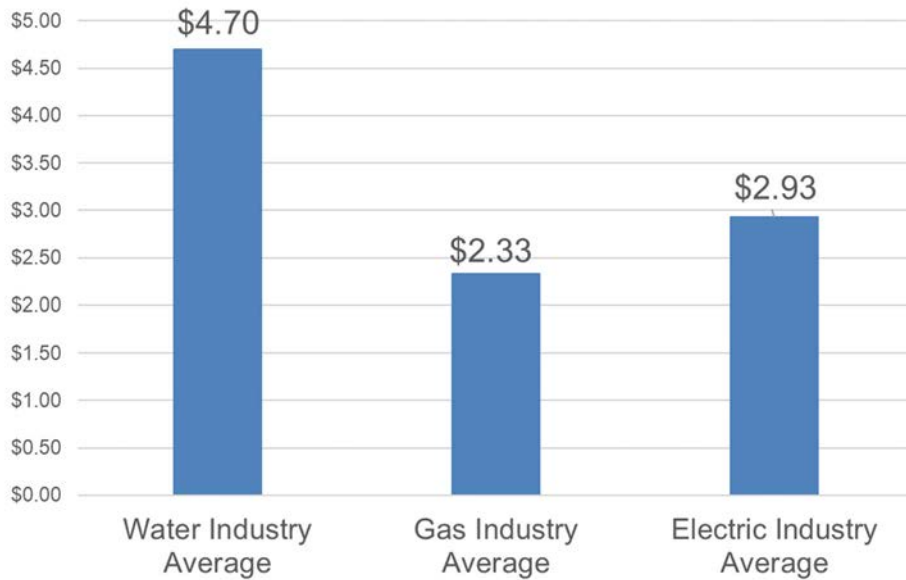
10 A. As a capital-intensive industry, water utilities require significantly greater capital investment  
11 in the infrastructure required to produce a dollar of revenue than do other industries, including  
12 electric and natural gas utilities. For example, as shown on Chart 1, below, it took \$4.70 of  
13 net utility plant on average to produce \$1.00 in operating revenues in 2019 for the water utility  
14 industry. In contrast, for the natural gas and electric utility industries, on average it took just  
15 \$2.33 and \$2.93, respectively, to produce \$1.00 in operating revenues in 2019. As financing  
16 needs have increased and will continue to increase, the competition for capital from traditional  
17 sources has increased and continues to increase, making the need to maintain financial integrity  
18 and the ability to attract needed new capital increasingly important.

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<sup>6</sup> *Value Line Investment Survey*, April 10, 2020. [clarification added]

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**Chart 1:**  
**Capital Intensity of the Water, Gas, and Electric Utility Industries<sup>7</sup>**



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4 **Q. How will water utilities raise the capital required to fund necessary infrastructure**  
5 **replacements?**

6 A. The water utility industry’s high degree of capital intensity, coupled with the need for  
7 substantial infrastructure capital spending, requires regulatory support in the form of adequate  
8 and timely rate relief, including the allowance of a sufficient rate of return on investment.

9 Substantial water utility investment and expenditures require significant financing. The  
10 three sources typically used for financing are debt, equity (common and preferred), and cash  
11 flow from operations. All three are intricately linked to the opportunity to earn a sufficient rate  
12 of return on investment and the ability to actually achieve that return. The return must be  
13 sufficient to maintain credit quality and enable the water utility to attract necessary new capital,  
14 be it debt or equity capital. If unable to raise debt or equity capital, the water utility must turn  
15 to either retained earnings or free cash flow<sup>8</sup>, both of which are directly linked to earning a

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<sup>7</sup> SNL Financial, Company SEC Form 10-Ks.

<sup>8</sup> Operating cash flow (funds from operations) minus capital expenditures.

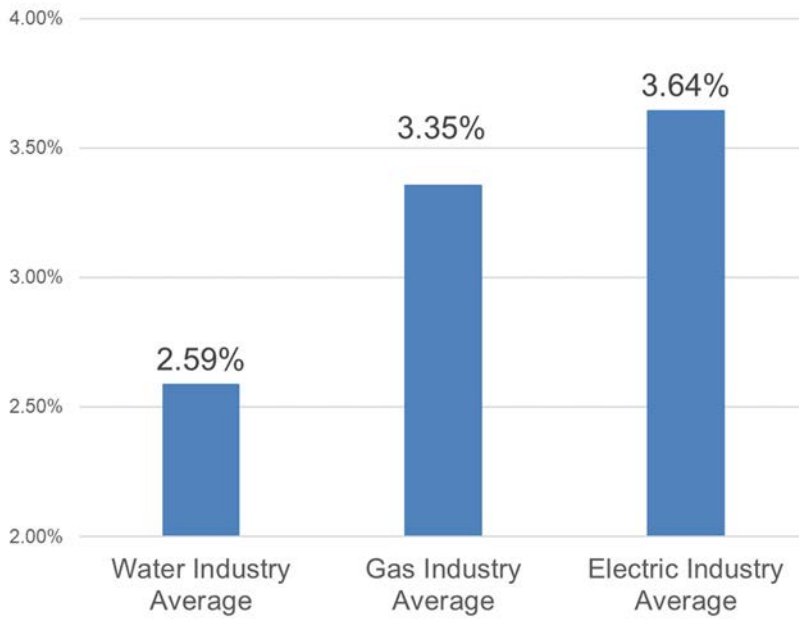
1 sufficient rate of return. The level of free cash flow represents the financial flexibility of a  
2 firm, *i.e.*, its ability to meet the needs of its debt and equity holders. If either retained earnings  
3 or free cash flows are inadequate, it will be nearly impossible for the water utility to attract the  
4 new capital, at a reasonable cost and on reasonable terms, needed to invest in critical new utility  
5 infrastructure. An insufficient rate of return can be financially devastating for water utilities  
6 given their obligation to protect the public health by providing safe, adequate, and reliable  
7 water service to their customers at all times.

8 **Q. Please continue your discussion of business risks.**

9 A. In addition to its capital-intensive nature, the water utility industry also experiences low  
10 depreciation rates. Given that depreciation is one of the principal sources of internally-  
11 generated cash flows for all utilities, low depreciation rates mean that utilities cannot rely on  
12 depreciation as a source of cash like other industries do. Because utility assets have long lives  
13 and, hence, long capital recovery periods, utilities face increased risk due to inflation, which  
14 results in a significantly higher cost to replace a decades-old utility plant where original cost  
15 was a small fraction of the cost of the plant to replace it. As shown on Chart 2, below, water  
16 utilities experienced a depreciation rate of 2.59% for 2019. In contrast, in 2019, the natural  
17 gas and electric utilities experienced average depreciation rates of 3.35% and 3.64%,  
18 respectively. Low depreciation rates signify that the pressure on cash flow remains  
19 significantly greater for water utilities than for other gas and electricity utilities, on average.

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**Chart 2:**  
**Depreciation Rates of the Water, Gas, and Electric Utility Industries<sup>9</sup>**



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In view of the foregoing, the water utility industry's high degree of capital intensity and low depreciation rates, coupled with the need for capital spending to replace aging and failing water infrastructure, makes the need to maintain financial integrity and the ability to attract needed new capital, through the allowance of a sufficient rate of return, increasingly important in order for water utilities to be able to successfully meet the challenges and investment needs they face.

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**B. Financial Risk**

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**Q. Please define financial risk and explain why it is important to the determination of a fair rate of return.**

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A. Financial risk is created by the introduction of senior capital, *i.e.*, debt and preferred stock, into the capital structure. As noted above, it is the additional risk that a company may not have sufficient cash flow to meet its financial obligations. The higher the proportion of debt in the

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<sup>9</sup> SNL Financial, Company SEC Form 10-Ks.



1 capital structure, the higher the financial risk which must be factored into the common equity  
2 cost rate, consistent with the previously mentioned basic financial principle of risk and return,  
3 *i.e.*, investors demand a higher common equity return as compensation for bearing higher  
4 investment risk.

5 **Q. Can the combined business and financial risks (*i.e.*, investment risk) of an enterprise be  
6 proxied by bond and credit ratings?**

7 A. Yes, but not entirely. Similar bond/issuer credit ratings reflect and are representative of similar  
8 combined business and financial risks, *i.e.*, the total risk faced by bond investors. Although  
9 specific business or financial risks may differ between companies, the same bond/credit rating  
10 indicates that the combined risks are similar, albeit not necessarily equal (as the purpose of the  
11 bond/credit rating process is to assess credit quality or credit risk and not common equity risk).

12 However, one must keep in mind that a long-term credit or bond issue rating is an  
13 opinion regarding the particular company's overall financial capacity to pay its financial  
14 obligations as they become due and payable. It is not an assessment of the risk faced by equity  
15 investors. The claims of equity holders are subordinate to the claims of debt holders, including  
16 bond holders, and are perpetual in life. As noted above, whereas bondholders can be assured  
17 of the probability that a particular company will be able to meet its financial obligations (and  
18 thus have higher credit/bond ratings), common equity holders bear the residual risk of  
19 insufficient or volatile cash flows in perpetuity. For that fundamental reason, the risks of  
20 owning common equity do not directly correspond to the risks of owning bonds.

21 **IV. UTILITIES, INC. OF FLORIDA AND THE UTILITY PROXY GROUP**

22 **Q. Have you reviewed financial data for UIF?**

23 A. Yes. UIF provides service to approximately 64,000 water and wastewater customers in ten  
24 counties throughout Florida. UIF is an operating subsidiary of CRU-US. Neither entity is  
25 publicly-traded.

1 **Q. Please explain how you chose the Utility Proxy Group.**

2 A. I chose the Utility Proxy Group by selecting those water companies that met the following  
3 criteria:

- 4 1) They are included in the Water Utility Group of *Value Line's* Standard Edition (April  
5 10, 2020);
- 6 2) They have 70% or greater of 2019 total operating income derived from, and 70% or  
7 greater of 2019 total assets devoted to, regulated water operations;
- 8 3) They had not publicly announced involvement in any major merger or acquisition  
9 activity (*i.e.*, one publicly-traded utility merging with or acquiring another) at the  
10 time of the preparation of this testimony;
- 11 4) They have not cut or omitted their common dividends during the past five years or  
12 through the time of the preparation of this testimony;
- 13 5) They have *Value Line* and Bloomberg adjusted Beta coefficients;
- 14 6) They have a positive *Value Line* five-year dividends per share (“DPS”) growth rate  
15 projection and,
- 16 7) They have *Value Line*, Bloomberg, Zacks or Yahoo! Finance, consensus five-year  
17 earnings per share (“EPS”) growth rate projections.

18 The following seven companies meet these criteria:

- 19 • American States Water Co. (“AWR”);
- 20 • American Water Works Co. Inc. (“AWK”);
- 21 • California Water Service Corp. (“CWT”);
- 22 • Essential Utilities, Inc. (“WTRG”);
- 23 • Middlesex Water Co. (“MSEX”);
- 24 • SJW Corporation (“SJW”); and
- 25 • York Water Co. (“YORW”).

26 **Q. Have you reviewed financial data for the utility proxy group?**

27 A. Yes. Page 1 of Schedule 2 contains comparative capitalization and financial statistics for the  
28 Utility Proxy Group for the years 2015-2019. As shown on page 1, during the five-year period  
29 ending 2019, the historically achieved average earnings rate on book common equity for the

1 group was 10.45%. The Utility Proxy Group had an average common equity ratio (including  
2 short-term debt) during the years 2015-2019 of 51.09%. Total debt to earnings before interest,  
3 taxes, depreciation, and amortization (“EBITDA”) for the years 2015-2019 ranged between  
4 3.41 and 5.54 times, averaging 4.00 times. Funds from operations to total debt ranged from  
5 14.49% to 25.81%, averaging 21.64%.

6 **V. CAPITAL STRUCTURE AND DEBT COST RATES**

7 **Q. What are the balances of investor-provided capital that you recommend be employed in**  
8 **developing a return on investor-supplied capital applicable to UIF?**

9 A. In this instance, I recommend the use of UIF’s Parent’s 13-month average capital structure  
10 ending December 31, 2019, which consists of 45.58% long-term debt, 5.03% short-term debt,  
11 and 49.39% common equity.

12 **Q. How does UIF’s common equity ratio of 49.39% compare with the equity ratios**  
13 **maintained by the Utility Proxy Group?**

14 A. UIF’s common equity ratio of 49.39% is reasonable and consistent with the range of common  
15 equity ratios maintained, on average, by the utilities used for the derivation of ROE. As shown  
16 on page 2 of Schedule 2, the range of equity ratios maintained by the Utility Proxy Group is  
17 between 38.48% and 57.05%, with an average of 49.34%.

18 In my opinion, a capital structure consisting of 45.58% long-term debt, 5.03% short-  
19 term debt, and 49.39% common equity is appropriate for ratemaking purposes for UIF in the  
20 current proceeding because it is comparable to the average capital structure ratios (based on  
21 total capital) maintained by the Utility Proxy Group on whose market data I base my  
22 recommended common equity cost rate.

23 **Q. What cost rates for long-term and short-term debt are most appropriate for use in a cost**  
24 **of capital determination for UIF?**

25 A. A long-term debt cost rate of 5.78% and a short-term debt cost rate of 4.04% are the most

1 appropriate for use in a cost of capital determination for UIF, as they are the actual average  
2 debt cost rates incurred by UIF's Parent for the 13-months ended December 31, 2019.

3 **VI. COMMON EQUITY COST RATE MODELS**

4 **Q. Is it important that cost of common equity models be market-based?**

5 A. Yes. Public utilities, like UIF, must compete for equity in capital markets along with  
6 all other companies with commensurate risk, which includes non-utilities. The cost of common  
7 equity is thus determined based on equity market expectations for the returns of those  
8 companies. If an individual investor is choosing to invest their capital among companies with  
9 comparable risk, they will choose the company providing a higher return over a company  
10 providing a lower return.

11 **Q. Are the cost of common equity models you use market-based models?**

12 A. Yes. The DCF model is market-based in that market prices are used in developing the  
13 dividend yield component of the model. The RPM and CAPM are also market-based in that  
14 the bond/issuer ratings and expected bond yields/risk-free rate used in the application of the  
15 RPM and CAPM reflect the market's assessment of bond/credit risk. In addition, the use of  
16 the Beta coefficient to determine the equity risk premium also reflects the market's assessment  
17 of market/systematic risk, as Beta coefficients are derived from regression analyses of market  
18 prices. Moreover, market prices are used in the development of the monthly returns and equity  
19 risk premiums used in the Predictive Risk Premium Model ("PRPM"). Selection criteria for  
20 the Non-Price Regulated Proxy Group are based on regression analyses of market prices and  
21 reflect the market's assessment of total risk.

22 **A. Discounted Cash Flow Model**

23 **Q. What is the theoretical basis of the DCF model?**

24 A. The theory underlying the DCF model is that the present value of an expected future stream of  
25 net cash flows during the investment holding period can be determined by discounting those

1 cash flows at the cost of capital, or the investors' capitalization rate. DCF theory assumes that  
2 an investor buys a stock for an expected total return rate which is derived from cash flows  
3 received in the form of dividends plus appreciation in market price (the expected growth rate).  
4 Mathematically, the dividend yield on market price plus a growth rate equals the capitalization  
5 rate (*i.e.*, the total common equity return rate expected by investors).

6 **Q. Which version of the DCF model do you use?**

7 A. I use the single-stage constant growth DCF model. The single-stage DCF model is expressed  
8 as:

$$9 \quad K = (D_1 / P_0) + g$$

10 Where:

11	K	=	Cost of Equity Capital
12	D <sub>1</sub>	=	Expected Dividend Per Share in one year
13	P <sub>0</sub>	=	Current Market Price
14	G	=	Expected Dividend Per Share Growth

15 **Q. Please describe the dividend yield used in your application of the DCF model.**

16 A. The unadjusted dividend yields are based on a recent (April 30, 2020) indicated dividend,  
17 divided by the average of closing market prices for the 60 days ending April 30, 2020, as shown  
18 in Column [1] on page 1 of Schedule 3.

19 **Q. Please explain the adjusted dividend yield shown in column [7] on page 1 of Schedule 3.**

20 A. Because dividends are paid quarterly, or periodically, as opposed to continuously (daily), an  
21 adjustment must be made to the dividend yield. This is often referred to as the discrete, or the  
22 Gordon Periodic, version of the DCF model.

23 DCF theory calls for the use of the full expectational growth rate, referred to as D<sub>1</sub>, in  
24 calculating the dividend yield component of the model. However, since the various companies  
25 in the Utility Proxy Group increase their quarterly dividend at various times during the year, a  
26 reasonable assumption is to reflect one-half the annual dividend growth rate in the dividend

1 yield component, referred to as  $D_{1/2}$ . This is a conservative approach because it does not  
2 overstate the dividend yield, which should be representative of the next 12-month period.  
3 Therefore, the actual average dividend yields in Column [1] on page 1 of Schedule 3, have  
4 been adjusted upward to reflect one-half the average projected growth rate shown in Column  
5 [6].

6 **Q. Please explain the basis of the growth rates of the Utility Proxy Group used in your**  
7 **application of the DCF model.**

8 A. Investors with more limited resources than institutional investors are likely to rely on widely  
9 available financial information services, such as *Value Line*, Bloomberg, Zacks, and Yahoo!  
10 Finance. Investors recognize that such analysts have significant insight into the dynamics of  
11 the industries and individual companies they analyze, as well as an entity's historical and future  
12 ability to effectively manage the effects of changing laws and regulations and ever-changing  
13 economic and market conditions.

14 Over the long run, there can be no growth in DPS without growth in EPS. Thus, the  
15 use of earnings growth rate forecasts in a DCF analysis provides a better matching between  
16 investors' market price appreciation expectations and the growth rate component of the DCF.  
17 Therefore, I have relied on security analysts' five-year forecasts of EPS growth in my  
18 application of the DCF model.

19 **Q. Please summarize the DCF model results.**

20 A. As shown on page 1 of Schedule 3, the average result of the single-stage DCF model is 8.70%,  
21 while the median result is 9.44%. I have averaged these two results in arriving at a conclusion  
22 of a DCF-indicated common equity cost rate of 9.07% for the Utility Proxy Group. By doing  
23 so, I have considered the DCF results for each company without giving undue weight to outliers  
24 on either the high or the low side.

1           **B.     The Risk Premium Model**

2           **Q.     Please describe the theoretical basis of the RPM.**

3           A.     The RPM is based on the basic financial principle of risk and return, namely, that investors  
4           require greater returns for bearing greater risk. The RPM recognizes that common equity  
5           capital has greater investment risk than debt capital, as common equity shareholders are last in  
6           line in any claim on an entity’s assets and earnings, as previously discussed. Therefore,  
7           investors require higher returns from investment in common stocks than from investment in  
8           bonds to compensate them for bearing the additional risk.

9                     While it is possible to directly observe bond returns and yields, the investor-required  
10           common equity return cannot be directly determined or observed. According to RPM theory,  
11           one can estimate a common equity risk premium over bonds, either historically or  
12           prospectively, and then use that premium to derive a cost rate of common equity. In summary,  
13           according to the RPM, the cost of common equity equals the expected cost rate for long-term  
14           debt capital plus a risk premium over that cost rate to compensate common shareholders for  
15           the added risk of being unsecured and last-in-line for any claim on a corporation's assets and  
16           earnings.

17           **Q.     Please explain how you derived your indicated cost of common equity based on the RPM.**

18           A.     I relied on the results of the application of two risk premium methods, as shown in Schedule 4.  
19           The first method is the PRPM. The second method is a risk premium model using an adjusted  
20           total market approach.

21           **Q.     Please explain the PRPM.**

22           A.     The PRPM, published in the *Journal of Regulatory Economics (“JRE”)*<sup>10</sup> and *The Electricity*

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<sup>10</sup> “A New Approach for Estimating the Equity Risk Premium for Public Utilities”, Pauline M. Ahern, Frank J. Hanley and Richard A. Michelfelder, Ph.D. *The Journal of Regulatory Economics* (December 2011), 40:261-278.

1 Journal (“TEJ”),<sup>11</sup> was developed from the work of Robert F. Engle, who shared the Nobel  
2 Prize in Economics in 2003, “for methods of analyzing economic time series with time-varying  
3 volatility (“ARCH”)”<sup>12</sup> (with “ARCH” standing for autoregressive conditional  
4 heteroskedasticity). Engle found that the volatility in market prices, returns, and equity risk  
5 premiums cluster over time, making them highly predictable and available to predict future  
6 levels of risk and risk premiums.

7 The PRPM estimates the risk/return relationship directly as the predicted equity risk  
8 premium is generated by the predictability of volatility, or risk. Thus, the PRPM is not based  
9 on an estimate of investor behavior, but rather on the evaluation of the actual results of that  
10 behavior, *i.e.*, the variance of historical equity risk premiums.

11 The inputs to the model are the historical returns on the common shares of each publicly  
12 traded utility in the Utility Proxy Group, minus the historical monthly yield on long-term U.S.  
13 Treasury securities, through April 2020. Using a generalized form of ARCH, known as  
14 GARCH, each water utility’s projected equity risk premium was determined using Eviews<sup>®</sup>  
15 statistical software. When the GARCH model is applied to the historical return data, it  
16 produces a predicted GARCH variance series<sup>13</sup> and a GARCH coefficient.<sup>14</sup> The forecasted  
17 30-year U.S. Treasury Bond yield of 2.03% is based on consensus forecasts for the six quarters  
18 ending with the third quarter 2021, derived from the May 1, 2020 *Blue Chip Financial*  
19 *Forecasts (“Blue Chip”),* averaged with the long-range forecasts for 2021 – 2025 and 2026 –  
20 2030, from the December 1, 2019 *Blue Chip*. The average PRPM indicated common equity  
21 cost rate is 11.66%, while the median is 10.96% for the Utility Proxy Group, as shown in

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11 “Comparative Evaluation of the Predictive Risk Premium Model™, the Discounted Cash Flow Model and  
the Capital Asset Pricing Model”, Pauline M. Ahern, Richard A. Michelfelder, Ph.D., Rutgers University,  
Dylan W. D’Ascendis, and Frank J. Hanley, The Electricity Journal (May, 2013).

12 [www.nobelprize.org](http://www.nobelprize.org)

13 Illustrated in Columns [1] and [2] on page 2 of Schedule 4.

14 Illustrated in Column [4] on page 2 of Schedule 4.



1 Column [7] on page 2 of Schedule 4. Consistent with my use of the average of the mean and  
2 median DCF results, I rely on the average of the mean and median PRPM results of 11.31% as  
3 my conclusion of the PRPM equity cost rate, also shown in Column [7] on page 2 of Schedule  
4 4.

5 **Q. Please explain the adjusted total market approach RPM.**

6 A. The adjusted total market approach RPM adds a prospective public utility bond yield to the  
7 average of: (1) an equity risk premium derived from a beta-adjusted total market equity risk  
8 premium and (2) an equity risk premium based on the S&P Utilities Index.

9 **Q. Please explain the basis of the adjusted prospective bond yield of 3.82% applicable to the**  
10 **Utility Proxy Group, shown on line 5 on page 3 of Schedule 4.**

11 A. The first step in the adjusted total market approach RPM analysis is to determine the expected  
12 bond yield. Because both ratemaking and the cost of capital, including the common equity  
13 cost rate, are prospective in nature, a prospective yield on long-term debt, similarly rated to the  
14 Utility Proxy Group, is essential. Since *Blue Chip* does not publish consensus yield forecasts  
15 for the Moody's A-rated public utility bonds, I began with the May 1, 2020 *Blue Chip*  
16 consensus forecast of about 50 economists of the expected yield on Aaa-rated corporate bonds  
17 for the six calendar quarters ending with the third calendar quarter of 2021, averaged with the  
18 long-range forecasts for 2021 – 2025, and 2026 – 2030, from the December 1, 2019 *Blue*  
19 *Chip*.<sup>15</sup> As shown on line 1 on page 3, the average expected yield on Moody's Aaa-rated  
20 corporate bonds is 3.21%. In order to derive a prospective Moody's A-rated public utility bond  
21 yield, an adjustment of 0.53%, or the average spread between Moody's Aaa-rated corporate  
22 bond yields and Moody's A-rated public utility bond yields for the three months ending April  
23 2020<sup>16</sup> must be made to the average Aaa corporate bond yield, which results in a bond yield of

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<sup>15</sup> See pages 10 and 11 of Schedule 4.

<sup>16</sup> See page 4 of Schedule 4.

1 3.74% applicable to a Moody's A-rated public utility bond.

2 Because the Utility Proxy Group average Moody's issuer rating is A2/A3, as shown on  
3 page 5 of Schedule 4, an 0.08% upward adjustment to the prospective Moody's A-rated public  
4 utility bond yield of 3.74% is necessary. The 0.08% represents one-sixth (1/6) of the average  
5 spread of 0.46% between Moody's A-rated and Baa-rated public utility bonds for the three  
6 months ending April 2020. This is necessary so that the prospective bond yield is consistent  
7 with the Utility Proxy Group's average A2/A3 long-term issuer rating. Adding the 0.08% to  
8 the 3.74% prospective Moody's A-rated public utility bond yield results in a 3.82% expected  
9 bond yield for the Utility Proxy Group, as shown on line 5 on page 3 of Schedule 4.

10 **Q. Please explain the derivation of the beta-derived equity risk premium.**

11 A. The components of the beta-derived risk premium model are: (1) An expected market equity  
12 risk premium over corporate bonds, and (2) the Beta coefficient. The derivation of the beta-  
13 derived equity risk premium applied to the Utility Proxy Group is shown on lines 1 through 9  
14 on page 8 of Schedule 4. The total beta-derived equity risk premium applied is based on an  
15 average of three historical data-based equity risk premiums, two *Value Line*-based equity risk  
16 premiums, and one Bloomberg-based equity risk premium. Each of these is described in turn.

17 **Q. How did you derive a market risk premium based on long-term historical data?**

18 A. To derive a historical market equity risk premium, I used the most recent holding period returns  
19 for the large company common stocks from the 2020 SBBI® Yearbook: Stocks, Bonds, Bills,  
20 and Inflation ("SBBI – 2020")<sup>17</sup> less the average historical yield on Moody's Aaa/Aa-rated  
21 corporate bonds for the period 1928 to 2019. The use of holding period returns over a very  
22 long period of time is appropriate because it is consistent with the long-term investment horizon  
23 presumed by investing in a going concern, *i.e.*, a company expected to operate in perpetuity.

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<sup>17</sup> SBBI – 2020 Appendix A Tables.

1 SBBI's long-term arithmetic mean monthly total return rate on large company common  
2 stocks was 11.83% and the long-term arithmetic mean monthly yield on Moody's Aaa/Aa-  
3 rated corporate bonds was 6.05%.<sup>18</sup> As shown on line 1 on page 8 of Schedule 4, subtracting  
4 the mean monthly bond yield from the total return on large company stocks results in a long-  
5 term historical equity risk premium of 5.78%.

6 I used the arithmetic mean monthly total return rates for the large company stocks and  
7 yields (income returns) for the Moody's Aaa/Aa corporate bonds, because they are appropriate  
8 for the purpose of estimating the cost of capital as noted in SBBI – 2020.<sup>19</sup> The use of the  
9 arithmetic mean return rates and yields is appropriate because historical total returns and equity  
10 risk premiums provide insight into the variance and standard deviation of returns needed by  
11 investors in estimating future risk when making a current investment. If investors relied on the  
12 geometric mean of historical equity risk premiums, they would have no insight into the  
13 potential variance of future returns because the geometric mean relates the change over many  
14 time periods to a constant rate of change, thereby obviating the year-to-year fluctuations, or  
15 variance, which is critical to risk analysis.

16 **Q. Please explain the derivation of the regression-based equity risk premium.**

17 A. To derive the regression analysis-derived market equity risk premium of 9.12%, shown on line  
18 2 on page 8 of Schedule 4, I used the same monthly annualized total returns on large company  
19 common stocks relative to the monthly annualized yields on Moody's Aaa/Aa corporate bonds  
20 as mentioned above. The relationship between interest rates and the market equity risk  
21 premium was modeled using the observed monthly market equity risk premium as the  
22 dependent variable, and the monthly yield on Moody's Aaa/Aa corporate bonds as the  
23 independent variable. I used a linear Ordinary Least Squares ("OLS") regression, in which the

---

<sup>18</sup> As explained in note 1 on page 8 of Schedule 4.

<sup>19</sup> SBBI – 2020, at 10-22.

1 market equity risk premium is expressed as a function of the Moody's Aaa/Aa corporate bonds  
2 yield:

$$3 \quad RP = \alpha + \beta (R_{Aaa/Aa})$$

4 **Q. Please explain the derivation of the PRPM equity risk premium.**

5 A. I used the same PRPM approach described previously to develop another equity risk premium  
6 estimate. The inputs to the model are the historical monthly returns on large company common  
7 stocks minus the monthly yields on Aaa/Aa corporate bonds during the period from January  
8 1928 through April 2020.<sup>20</sup> Using the previously discussed generalized form of ARCH, known  
9 as GARCH, the projected equity risk premium is determined using Eviews<sup>®</sup> statistical  
10 software. The resulting PRPM predicted market equity risk premium is 11.95%.<sup>21</sup>

11 **Q. Please explain the derivation of a projected equity risk premium based on *Value Line*  
12 data for your RPM analysis.**

13 A. As noted previously, because both ratemaking and the cost of capital, including the cost rate  
14 of common equity, are prospective, a prospective market equity risk premium is essential. The  
15 derivation of the forecasted or prospective market equity risk premium can be found in note 4  
16 on page 8 of Schedule 4. Consistent with my calculation of the dividend yield component in  
17 my DCF analysis, this prospective market equity risk premium is derived from an average of  
18 the three- to five-year median market price appreciation potential by *Value Line* for the 13  
19 weeks ending May 1, 2020, plus an average of the median estimated dividend yield for the  
20 common stocks of the 1,700 firms covered in *Value Line's* Standard Edition.<sup>22</sup>

21 The average median expected price appreciation is 81%, which translates to a 15.99%  
22 annual appreciation, and, when added to the average of *Value Line's* median expected dividend

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<sup>20</sup> Data from January 1926-December 2019 is from SBBI – 2020. Data from January 2020 – April 2020 is from Bloomberg Professional Services.

<sup>21</sup> Shown on line 3 on page 8 of Schedule 4.

<sup>22</sup> As explained in detail in page 2, note 1 of Schedule 5.

1 yields of 2.72%, equates to a forecasted annual total return rate on the market of 18.71%. The  
2 forecasted Aaa bond yield of 3.21% is deducted from the total market return of 18.71%,  
3 resulting in an equity risk premium of 15.50%, shown on page 8, line 4 of Schedule 4.

4 **Q. Please explain the derivation of an equity risk premium based on the S&P 500 composite**  
5 **index companies using *Value Line* data.**

6 A. Using data from *Value Line*, I calculate an expected total return on the S&P 500 using expected  
7 dividend yields and long-term growth estimates as a proxy for capital appreciation. The  
8 expected total return for the S&P 500 is 14.79%. Subtracting the prospective yield on Aaa  
9 Corporate bonds of 3.21% results in an 11.58% projected equity risk premium.

10 **Q. Please explain the derivation of an equity risk premium based on the S&P 500 composite**  
11 **index companies using Bloomberg data.**

12 A. Using data from Bloomberg Professional Services, I calculate an expected total return on the  
13 S&P 500 using expected dividend yields and long-term growth estimates as a proxy for capital  
14 appreciation, identical to the method described above relative to *Value Line* data. The expected  
15 total return for the S&P 500 is 13.53%. Subtracting the prospective yield on Aaa Corporate  
16 bonds of 3.21% results in a 10.32% projected equity risk premium.

17 **Q. What is your conclusion of the market equity risk premium for your total market**  
18 **approach RPM?**

19 A. I give equal weight to all these market equity risk premiums in arriving at my conclusion of  
20 market equity risk premium of 10.71%. After calculating the average market equity risk  
21 premium of 10.71%, I adjust it by the Beta coefficient of the Utility Proxy Group to account  
22 for the risk of the Group. As discussed below, the Beta coefficient is a meaningful measure of  
23 prospective relative risk to the market as a whole and is a logical means by which to allocate a  
24 company's or proxy group's share of the market's total equity risk premium, relative to  
25 corporate bond yields. As shown on page 1 of Schedule 5, the average of the mean and median

1 Beta coefficients for the Utility Proxy Group is 0.71. Multiplying the Beta coefficient of the  
2 Utility Proxy Group of 0.71 by the market equity risk premium of 10.71% results in a beta-  
3 adjusted equity risk premium of 7.60% for the Utility Proxy Group.

4 **Q. How did you derive the equity risk premium based on the S&P utility index and Moody's**  
5 **A-rated public utility bonds?**

6 A. I estimate three equity risk premiums based on the S&P Utility Index holding returns, and two  
7 equity risk premiums based on the expected returns of the S&P Utilities Index, using *Value*  
8 *Line* and Bloomberg data, respectively. Turning first to the S&P Utility Index holding period  
9 returns, I derive a long-term monthly arithmetic mean equity risk premium between the S&P  
10 Utility Index total returns of 10.74% and monthly A-rated public utility bond yields of 6.53%  
11 from 1928 to 2019 to arrive at an equity risk premium of 4.21%.<sup>23</sup> I then use the same historical  
12 data to derive an equity risk premium of 6.68% based on a regression of the monthly equity  
13 risk premiums. The final S&P Utility Index holding period equity risk premium involves  
14 applying the PRPM using the historical monthly equity risk premiums from January 1928 to  
15 April 2020 to arrive at a PRPM-derived equity risk premium of 5.95% for the S&P Utility  
16 Index.

17 I then derive expected total returns on the S&P Utilities Index of 10.50% and 8.97%  
18 using data from *Value Line* and Bloomberg Professional Services, respectively, and subtract  
19 the prospective A2-rated public utility bond yield (3.74%)<sup>24</sup>, which results in risk premiums of  
20 6.76% and 5.23%, respectively. As with the market equity risk premiums, I average all the  
21 risk premiums to arrive at my utility-specific equity risk premium of 5.76%.

---

<sup>23</sup> As shown on line 1 on page 12 of Schedule 4.

<sup>24</sup> Derived on line 3 on page 3 of Schedule 4.

1 **Q. What is your conclusion regarding the appropriate equity risk premium for use in your**  
2 **adjusted total market approach RPM analysis?**

3 A. The equity risk premium applicable to the Utility Proxy Group is 6.68%, derived by averaging  
4 the beta-derived premium of 7.60% (line 9 on page 8 of Schedule 4) with the equity risk  
5 premium of 5.76% based on the holding period returns of public utilities with Moody's A-rated  
6 bonds (line 6 on page 12 of Schedule 4).

7 **Q. What is the RPM-based common equity cost rate based on the adjusted total market**  
8 **approach?**

9 A. It is 10.50% for the Utility Proxy Group as shown on line 7 on page 3 of Schedule 4.

10 **Q. What are the results of your application of the PRPM and the adjusted total market**  
11 **approach RPM?**

12 A. As shown on page 1 of Schedule 4, the indicated RPM-derived common equity cost rate is  
13 10.91%, derived by averaging the PRPM results (11.31%) with those based on the adjusted  
14 total market approach (10.50%).

15 **C. The Capital Asset Pricing Model**

16 **Q. Please explain the theoretical basis of the CAPM.**

17 A. CAPM theory defines risk as the co-variability of a security's returns with the market's returns  
18 as measured by the Beta coefficient ( $\beta$ ). A Beta coefficient of less than 1.0 indicates lower  
19 variability while a Beta coefficient greater than 1.0 indicates greater variability than the market.

20 The CAPM assumes that all other risk, *i.e.*, all non-market or unsystematic risk, can be  
21 eliminated through diversification. The risk that cannot be eliminated through diversification  
22 is called market or systematic risk. In addition, the CAPM presumes that investors require  
23 compensation only for those systematic risks that are the result of macroeconomic and other  
24 events that affect the returns on all assets. The model is applied by adding a risk-free rate of  
25 return to a market risk premium, which is adjusted proportionately to reflect the systematic risk

1 of the individual security relative to the total market, as measured by Beta coefficient. The  
2 traditional CAPM model is expressed as:

3  
4 Where:  $R_s = R_f + \beta(R_m - R_f)$   
5  $R_s =$  Return rate on the common stock  
6  $R_f =$  Risk-free rate of return  
7  $R_m =$  Return rate on the market as a whole  
8  $\beta =$  Adjusted beta (volatility of the security relative to the market  
as a whole)

9 Numerous tests of the CAPM have measured the extent to which security returns and  
10 Beta coefficients are related, as predicted by the CAPM, confirming the CAPM's validity. The  
11 empirical CAPM ("ECAPM") reflects the reality that, while the results of these tests support  
12 the notion that the Beta coefficient is related to security returns, the empirical Security Market  
13 Line ("SML") described by the CAPM formula is not as steeply sloped as the predicted SML.  
14 Morin<sup>25</sup> states:

15 With few exceptions, the empirical studies agree that ... low-beta securities earn  
16 returns somewhat higher than the CAPM would predict, and high-beta securities  
17 earn less than predicted.

18 \* \* \*

19  
20  
21 Therefore, the empirical evidence suggests that the expected return on a security  
22 is related to its risk by the following approximation:

23  
24 
$$K = R_F + x \beta(R_M - R_F) + (1-x) \beta(R_M - R_F)$$

25  
26 where x is a fraction to be determined empirically. The value of x that best  
27 explains the observed relationship  $\text{Return} = 0.0829 + 0.0520 \beta$  is between 0.25  
28 and 0.30. If  $x = 0.25$ , the equation becomes:

29  
30 
$$K = R_F + 0.25(R_M - R_F) + 0.75 \beta(R_M - R_F)$$

31  
32 In view of theory and practical research, I have applied both the traditional CAPM and  
33 the ECAPM to the companies in the Utility Proxy Group and averaged the results.

---

<sup>25</sup> Roger A. Morin, New Regulatory Finance, Public Utility Reports, 2006, at 175, 190.



1 **Q. Please describe your selection of the Beta coefficient for your CAPM analysis?**

2 A. I relied on an average of the adjusted Beta coefficients published by *Value Line* and provided  
3 by Bloomberg Professional Services. While both of those services adjust their calculated (or  
4 “raw”) Beta coefficients to reflect the tendency of the Beta coefficient to regress to the market  
5 mean of 1.00, *Value Line* calculates its Beta coefficients over a five-year period, while  
6 Bloomberg’s calculation is based on two years of data.

7 **Q. Please describe your selection of a risk-free rate of return for your CAPM analysis.**

8 A. As shown in Column [5] on Schedule 5, the risk-free rate adopted for both applications of the  
9 CAPM is 2.03%. The risk-free rate of 2.03% is based on the average of the consensus forecast  
10 for the six quarters ending with the third quarter 2021, from the May 1, 2020 *Blue Chip*,  
11 averaged with the long-range forecasts for 2021 – 2025 and 2026 – 2030, from the December  
12 1, 2019 *Blue Chip*,<sup>26</sup> as detailed in note 2 on page 2 of Schedule 5.

13 **Q. Why is the yield on long-term U.S. treasury bonds appropriate for use as the risk-free  
14 rate?**

15 A. The yield on long-term U.S. Treasury Bonds is almost risk-free and its term is consistent with:  
16 (1) the long-term cost of capital to public utilities measured by the yields on A-rated public  
17 utility bonds; (2) the long-term investment horizon inherent in utilities’ common stock and (3)  
18 the long-term life of the jurisdictional rate base to which the allowed reasonable rate of return  
19 (*i.e.*, cost of capital) will be applied. In contrast, short-term U.S. Treasury yields are more  
20 volatile, and reflect a short-term investment horizon that is not consistent with the long-term  
21 investment horizon, and life of the rate base to which the allowed rate of return is applied.

22 **Q. Please explain the estimation of the expected equity risk premium for the market.**

23 A. The basis of the market risk premium is explained in detail in note 1 on page 2 of Schedule 5.

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<sup>26</sup> See pages 10 and 11 of Schedule 4.

1 As discussed previously, the market risk premium is derived from an average of three historical  
2 data-based market risk premiums, two *Value Line* data-based market risk premiums, and one  
3 Bloomberg data-based market risk premium.

4 The long-term income return on U.S. Government Securities of 5.09% was deducted  
5 from the SBBI – 2020 monthly historical total market return of 12.10%, which resulted in a  
6 historical market equity risk premium of 7.01%.<sup>27</sup> I applied a linear OLS regression to the  
7 monthly annualized historical returns on the S&P 500 relative to historical yields on long-term  
8 U.S. Government Securities from SBBI – 2020. That regression analysis yielded a market  
9 equity risk premium of 10.26%. The PRPM market equity risk premium is 13.44% and is  
10 derived using the PRPM relative to the yields on long-term U.S. Treasury securities from  
11 January 1926 through April 2020.

12 The *Value Line*-derived forecasted total market equity risk premium is derived by  
13 deducting the forecasted risk-free rate of 2.03%, discussed above, from the *Value Line*  
14 projected total annual market return of 18.71%, resulting in a forecasted total market equity  
15 risk premium of 16.68%. The S&P 500 projected market equity risk premium using *Value*  
16 *Line* data is derived by subtracting the projected risk-free rate of 2.03% from the projected total  
17 return of the S&P 500 of 14.79%. The resulting market equity risk premium is 12.76%.

18 The S&P 500 projected market equity risk premium using Bloomberg data is derived  
19 by subtracting the projected risk-free rate of 2.03% from the projected total return of the S&P  
20 500 of 13.53%. The resulting market equity risk premium is 11.50%.

21 These six measures, when averaged, result in an average total market equity risk  
22 premium of 11.94%.

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<sup>27</sup> SBBI – 2020: at Appendix A-1 (1) through A-1 (3) and Appendix A-7 (19) through A-7 (21).

1 **Q. What are the results of applying the traditional and empirical CAPM to the Utility Proxy**  
2 **Group?**

3 A. As shown in Column [8] on page 1 of Schedule 5, the average and median CAPM/ECAPM  
4 equity cost rate is 10.90%.

5 **D. Common Equity Cost Rates for a Proxy Group of Domestic, Non-Price Regulated**  
6 **Companies Based on the DCF, RPM, and CAPM**

7 **Q. Why do you also consider a proxy group of domestic, non-price regulated companies?**

8 A. In the *Hope* and *Bluefield* cases, the U.S. Supreme Court did not specify that comparable risk  
9 companies had to be utilities. Since the purpose of rate regulation is to be a substitute for  
10 marketplace competition, non-price regulated firms operating in the competitive marketplace  
11 make an excellent proxy if they are comparable in total risk to the Utility Proxy Group being  
12 used to estimate the cost of common equity. The selection of such domestic, non-price  
13 regulated competitive firms theoretically and empirically results in a proxy group which is  
14 comparable in total risk to the Utility Proxy Group, since all of these companies compete for  
15 capital in the exact same markets.

16 **Q. How did you select non-price regulated companies that are comparable in total risk to**  
17 **the Utility Proxy Group?**

18 A. In *order* to select a proxy group of domestic, non-price regulated companies similar in total  
19 risk to the Utility Proxy Group, I relied on the Beta coefficients and related statistics derived  
20 from *Value Line* regression analyses of weekly market prices over the most recent 260 weeks  
21 (*i.e.*, five years). These selection criteria resulted in a proxy group of 12 domestic, non-price  
22 regulated firms comparable in total risk to the Utility Proxy Group. Total risk is the sum of  
23 non-diversifiable market risk and diversifiable company-specific risks. The criteria used in  
24 selecting the domestic, non-price regulated firms was:

25 1) They must be covered by *Value Line Investment Survey* (Standard Edition);

- 1           2) They must be domestic, non-price regulated companies, *i.e.*, not utilities;  
2           3) Their Beta coefficients must lie within plus or minus two standard deviations of the  
3           average unadjusted Beta coefficients of the Utility Proxy Group; and  
4           4) The residual standard errors of the *Value Line* regressions which gave rise to the  
5           unadjusted Beta coefficients must lie within plus or minus two standard deviations of  
6           the average residual standard error of the Utility Proxy Group.

7           Beta coefficients measure market, or systematic, risk, which is not diversifiable. The  
8           residual standard errors of the regressions measure each firm's company-specific, diversifiable  
9           risk. This is demonstrated clearly by Jack C. Francis on page 273 of Investments: Analysis  
10          and Management, where he states "Total risk can be measured by the variance of returns,  
11          denoted  $\text{Var}(r)$ . This measure of *total risk is partitioned into its systematic and unsystematic*  
12          *components.*"<sup>28</sup> Essentially, companies that have similar betas and standard errors of  
13          regression have similar total investment risk.

14       **Q. Have you prepared a schedule which shows the data from which you selected the 12**  
15       **domestic, non-price regulated companies that are comparable in total risk to the Utility**  
16       **Proxy Group?**

17       A. Yes, the basis of my selection and both proxy groups' regression statistics are shown in  
18       Schedule 6.

19       **Q. Did you calculate common equity cost rates using the DCF model, RPM, and CAPM for**  
20       **the Non-Price Regulated Proxy Group?**

21       A. Yes. Because the DCF model, RPM, and CAPM have been applied in an identical manner as  
22       described above, I will not repeat the details of the rationale and application of each model.  
23       One exception is in the application of the RPM, where I did not use public utility-specific  
24       equity risk premiums, nor did I apply the PRPM to the individual non-price regulated

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<sup>28</sup> Jack C. Francis, Investments: Analysis and Management 5<sup>th</sup> (McGraw-Hill, 1991) at 273 (italics in original).

1 companies.

2 Page 2 of Schedule 7 derives the constant growth DCF model common equity cost rate.  
3 As shown, the indicated common equity cost rate, using the constant growth DCF for the Non-  
4 Price Regulated Proxy Group comparable in total risk to the Utility Proxy Group, is 8.41%.

5 Pages 3 through 5 of Schedule 7 contain the data and calculations that support the  
6 13.12% RPM common equity cost rate. As shown on line 1, page 3 of Schedule 7, the  
7 consensus prospective yield on Moody's Baa-rated corporate bonds for the six quarters ending  
8 in the third quarter of 2021, and for the years 2021 – 2025 and 2026 – 2030, is 4.55%.<sup>29</sup> When  
9 the beta-adjusted risk premium of 8.57%<sup>30</sup> relative to the Non-Price Regulated Proxy Group is  
10 added to the prospective Baa2-rated corporate bond yield of 4.55%, the indicated RPM  
11 common equity cost rate is 13.12%.

12 Page 6 of Schedule 7 contains the inputs and calculations that support my indicated  
13 CAPM/ECAPM common equity cost rate of 11.83%.

14 **Q. What is the cost rate of common equity based on the Non-Price Regulated Proxy Group?**

15 A. As shown on page 1 of Schedule 7, the results of the common equity models applied to the  
16 Non-Price Regulated Proxy Group -- which group is comparable in total risk to the Utility  
17 Proxy Group -- are as follows: 8.41% (DCF), 13.12% (RPM), and 11.83% (CAPM). The  
18 average of the mean and median of these models is 11.48%, which I used as the indicated  
19 common equity cost rate for the Non-Price Regulated Proxy Group.

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<sup>29</sup> *Blue Chip Financial Forecasts*, December 1, 2019, at page 14 and May 1, 2020, at page 2.  
<sup>30</sup> Derived on page 4 of Schedule 7.

1 **VII. INDICATED COMMON EQUITY COST RATE BEFORE ADJUSTMENT FOR**  
2 **COMPANY-SPECIFIC RISK**

3 **Q. What is the indicated common equity cost rate based on the cost of common equity model**  
4 **results?**

5 A. It is 10.75%, based on the common equity cost rates resulting from the application of cost of  
6 common equity models to the Utility Proxy Group and the Non-Price Regulated Proxy Group  
7 summarized in Table 2 above and on page 2 of Schedule 1. As discussed above, I employ  
8 multiple cost of common equity models as primary tools in arriving at my recommended  
9 common equity cost rate because:

- 10 1) No single model is so inherently precise that it can be relied on solely to the  
11 exclusion of other theoretically sound models;  
12 2) All of the models are market-based;  
13 3) The use of multiple models adds reliability to the estimation of the common equity  
14 cost rate; and  
15 4) The prudence of using multiple cost of common equity models is supported in both  
16 the financial literature and regulatory precedent.

17 Based on these common equity cost rate results, I conclude that a common equity cost  
18 rate of 10.75% is indicated for the Utility Proxy Group before determining if there need to be  
19 any Company-specific adjustments.

20 **A. Company-Specific Risk Adjustments**

21 **1. Business Risk Adjustment**

22 **Q. Does UIF's smaller size compared with the Utility Proxy Group increase its business risk?**

23 A. Yes. UIF's smaller size relative to the Utility Proxy Group companies indicates greater relative  
24 business risk for the Company because, all else being equal, size has a material bearing on risk.

25 Size affects business risk because smaller companies generally are less able to cope  
26 with significant events that affect sales, revenues and earnings. For example, smaller

1 companies face more risk exposure to business cycles and economic conditions, both nationally  
2 and locally. Additionally, the loss of revenues from a few larger customers would have a  
3 greater effect on a small company than on a bigger company with a larger, more diverse,  
4 customer base.

5 As further evidence illustrates that smaller firms are riskier, investors generally demand  
6 greater returns from smaller firms to compensate for less marketability and liquidity of their  
7 securities. Duff & Phelps 2019 Valuation Handbook Guide to Cost of Capital - Market Results  
8 through 2018 (“D&P - 2019”) discusses the nature of the small-size phenomenon, providing  
9 an indication of the magnitude of the size premium based on several measures of size. In  
10 discussing “Size as a Predictor of Equity Premiums,” D&P - 2019 states:

11 The size effect is based on the empirical observation that companies of smaller  
12 size are associated with greater risk and, therefore, have greater cost of capital  
13 [sic]. The “size” of a company is one of the most important risk elements to  
14 consider when developing cost of equity capital estimates for use in valuing a  
15 business simply because size has been shown to be a *predictor* of equity returns.  
16 In other words, there is a significant (negative) relationship between size and  
17 historical equity returns - as size *decreases*, returns tend to *increase*, and vice  
18 versa. (footnote omitted) (emphasis in original)<sup>31</sup>

19 Furthermore, in “The Capital Asset Pricing Model: Theory and Evidence,” Fama and  
20 French note size is indeed a risk factor which must be reflected when estimating the cost of  
21 common equity. On page 14, they note:

22 . . . the higher average returns on small stocks and high book-to-market stocks  
23 reflect unidentified state variables that produce undiversifiable risks  
24 (covariances) in returns not captured in the market return and are priced  
25 separately from market betas.<sup>32</sup>

26 Based on this evidence, Fama and French proposed their three-factor model which  
27 includes a size variable in recognition of the effect size has on the cost of common equity.

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<sup>31</sup> Duff & Phelps 2019 Valuation Handbook Guide to Cost of Capital - Market Results through 2018, Wiley 2018, at 4-1.

<sup>32</sup> Eugene F. Fama and Kenneth R. French, “The Capital Asset Pricing Model: Theory and Evidence,” *Journal of Economic Perspectives*, Volume 18, Number 3, Summer 2004, at 25-43.

1           Also, it is a basic financial principle that the use of funds invested, and not the source  
2 of funds, is what gives rise to the risk of any investment.<sup>33</sup> Eugene Brigham, a well-known  
3 authority, states:

4           A number of researchers have observed that portfolios of small-firms (sic) have  
5 earned consistently higher average returns than those of large-firm stocks; this is  
6 called the “small-firm effect.” On the surface, it would seem to be advantageous  
7 to the small firms to provide average returns in a stock market that are higher  
8 than those of larger firms. In reality, it is bad news for the small firm; **what the**  
9 **small-firm effect means is that the capital market demands higher returns**  
10 **on stocks of small firms than on otherwise similar stocks of the large firms.**  
11 (emphasis added)<sup>34</sup>

12           Consistent with the financial principle of risk and return discussed above, increased  
13 relative risk due to small size must be considered in the allowed rate of return on common  
14 equity. Therefore, the Commission’s authorization of a cost rate of common equity in this  
15 proceeding must appropriately reflect the unique risks of UIF’s, including its small size, which  
16 is justified and supported above by evidence in the financial literature.

17 **Q. Is there a way to quantify an adjustment to compensate UIF for greater business risk due**  
18 **to its smaller size relative to the Utility Proxy Group?**

19 A. Yes. UIF has greater relative risk than the average utility in the Utility Proxy Group because  
20 of its smaller size compared with the Utility Proxy Group, as measured by an estimated market  
21 capitalization of common equity for UIF.

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<sup>33</sup> Brealey, Richard A. and Myers, Stewart C., Principles of Corporate Finance (McGraw-Hill Book Company, 1996), at 204-205, 229.

<sup>34</sup> Brigham, Eugene F., Fundamentals of Financial Management, Fifth Edition (The Dryden Press, 1989), at 623.



**Table 3: Size as Measured by Market Capitalization for UIF  
and the Utility Proxy Group**

	<u>Market Capitalization*</u> (\$ Millions)	<u>Times Greater Than The Company</u>
UIF	\$196.004	
Utility Proxy Group	\$5,657.608	28.9x

\*From page 1 of Schedule 8.

UIF’s estimated market capitalization was \$196.004 million as of April 30, 2020,<sup>35</sup> compared with the market capitalization of the average company in the Utility Proxy Group of \$5.657 billion as of April 30, 2020. The average company in the Utility Proxy Group has a market capitalization 28.9 times the size of UIF’s estimated market capitalization.

As a result, it is necessary to upwardly adjust the indicated common equity cost rate of 10.75% to reflect UIF’s greater risk due to their smaller relative size. The determination is based on the size premiums for portfolios of the New York Stock Exchange, American Stock Exchange, and NASDAQ listed companies ranked by deciles for the 1926 to 2019 period as shown on the bottom half of page 1 of Schedule 8. The average size premium for the Utility Proxy Group with a market capitalization of \$5.7 billion falls in the 4<sup>th</sup> decile, while the Company’s estimated market capitalization of \$196.004 million places it in the 10<sup>th</sup> decile. The size premium spread between the 4<sup>th</sup> decile and the 10<sup>th</sup> decile is 4.20% as shown on the top half of page 1 of Schedule 8. Even though a 4.20% upward size adjustment is indicated, I applied a size premium of 1.00% to the Company’s indicated common equity cost rate.

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<sup>35</sup> \$196.004M = \$122.446M (book equity from UIF 2019 Annual Report to the FL PSC) \* 49.39% (requested common equity ratio from page 1 of Schedule 1) \* 324.1% (market-to-book ratio of the Utility Proxy Group) as demonstrated on page 2 of Schedule 8.

1 **Q. Did you evaluate UIF's parent, CRU-US's estimated market capitalization compared to**  
2 **the proxy group?**

3 A. Yes. Even though I do not think it is applicable,<sup>36</sup> I looked at CRU's common equity balance  
4 at December 31, 2019. I then adjusted it by the proxy group market-to-book ratio and  
5 compared it with the proxy group. CRU-US's estimated market capitalization, \$944.372  
6 million,<sup>37</sup> would fall in the 8<sup>th</sup> decile, which would indicate a 0.80% size premium over the  
7 average proxy group company.

8 **Q. Does the FL ROE Formula allow for adjustments for increased risks of small utilities?**

9 A. Yes, it does. Order No. PSC-2019-0267-PAA-WS states the following:

10 A private placement premium of 50 basis points is added to reflect the difference  
11 in yields on publicly-traded debt and privately placed debt, which is illiquid.  
12 Investors require a premium for the lack of liquidity of privately placed debt.

13 A small utility risk premium of 50 basis points is added because the average  
14 Florida WAW [water and wastewater] utility is too small to qualify for privately  
15 placed debt and smaller companies are considered by investors to be more risky  
16 than larger companies. [clarification added]

17 In view of the all of the above, and especially given CRU-US's debt was privately  
18 placed, my 1.00% upward adjustment to reflect the increased risk of UIF relative to the Utility  
19 Proxy Group is both reasonable and conservative.

## 20 **VIII. CONCLUSION**

21 **Q. What is your recommended return on investor-supplied capital for UIF?**

22 A. Given the Company's 13-month average balances of investor-supplied capital ending  
23 December 31, 2019 which consists of 45.58% long-term debt at an embedded debt cost rate of  
24 5.78%, 5.03% short-term debt at an embedded debt cost rate of 4.04%, and 49.39% common  
25 equity at my recommended ROE of 11.75%, I conclude that an appropriate return on investor-

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<sup>36</sup> It is Mr. D'Ascendis' opinion that the parent company's size is irrelevant in setting rates for one of its jurisdictional subsidiaries. Regulation is required to look at each operating utility as a stand-alone company since they can only set rates for that particular utility and no other operating subsidiary outside of their jurisdiction.

<sup>37</sup> \$291.383M (CRU-US book equity) \* 324.1% (market-to-book ratio of the Utility Proxy Group) = \$944.372M

1           supplied capital for the Company is 8.63%. A common equity cost rate of 11.75% is consistent  
2           with the *Hope* and *Bluefield* standard of a just and reasonable return which ensures the integrity  
3           of presently invested capital and enables the attraction of needed new capital on reasonable  
4           terms. It also ensures that UIF will be able to continue providing safe, adequate and reliable  
5           water service to the benefit of customers. Thus, it balances the interests of both customers and  
6           the Company.

7   **Q.    Does that conclude your direct testimony?**

8   A.    Yes

9

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Application for increase in water and )  
wastewater rates in Charlotte, Highlands, )  
Lake, Lee, Marion, Orange, Pasco, Pinellas, )  
Polk, and Seminole Counties by Utilities, Inc. )  
of Florida. )  
\_\_\_\_\_)

Docket No. 20200139-WS

**EXHIBIT (DWD-1) \_\_\_\_\_**

**OF**

**DYLAN D. D'ASCENDIS**

**on behalf of**

**Utilities, Inc. of Florida**

**Summary**

Dylan is an experienced consultant and a Certified Rate of Return Analyst (CRRA) and Certified Valuation Analyst (CVA). He has served as a consultant for investor-owned and municipal utilities and authorities for 11 years. Dylan has extensive experience in rate of return analyses, class cost of service, rate design, and valuation for regulated public utilities. He has testified as an expert witness in the subjects of rate of return, cost of service, rate design, and valuation before 19 regulatory commissions in the U.S. and an American Arbitration Association panel.

He also maintains the benchmark index against which the Hennessy Gas Utility Mutual Fund performance is measured.

**Areas of Specialization**

- Regulation and Rates
- Utilities
- Mutual Fund Benchmarking
- Capital Market Risk
- Financial Modeling
- Valuation
- Regulatory Strategy
- Rate Case Support
- Rate of Return
- Cost of Service
- Rate Design

**Recent Expert Testimony Submission/Apearances**

<b>Jurisdiction</b>	<b>Topic</b>
■ Massachusetts Department of Public Utilities	Rate of Return
■ New Jersey Board of Public Utilities	Rate of Return
■ Hawaii Public Utilities Commission	Cost of Service, Rate Design
■ South Carolina Public Service Commission	Return on Common Equity
■ American Arbitration Association	Valuation

**Recent Assignments**

- Provided expert testimony on the cost of capital for ratemaking purposes before numerous state utility regulatory agencies
- Maintains the benchmark index against which the Hennessy Gas Utility Mutual Fund performance is measured
- Sponsored valuation testimony for a large municipal water company in front of an American Arbitration Association Board to justify the reasonability of their lease payments to the City
- Co-authored a valuation report on behalf of a large investor-owned utility company in response to a new state regulation which allowed the appraised value of acquired assets into rate base

**Recent Publications and Speeches**

- Co-Author of: “Decoupling, Risk Impacts and the Cost of Capital”, co-authored with Richard A. Michelfelder, Ph.D., Rutgers University and Pauline M. Ahern. The Electricity Journal, March, 2020.
- Co-Author of: “Decoupling Impact and Public Utility Conservation Investment”, co-authored with Richard A. Michelfelder, Ph.D., Rutgers University and Pauline M. Ahern. Energy Policy Journal, 130 (2019), 311-319.
- “Establishing Alternative Proxy Groups”, before the Society of Utility and Regulatory Financial Analysts: 51st Financial Forum, April 4, 2019, New Orleans, LA.
- “Past is Prologue: Future Test Year”, Presentation before the National Association of Water Companies 2017 Southeast Water Infrastructure Summit, May 2, 2017, Savannah, GA.
- Co-author of: “Comparative Evaluation of the Predictive Risk Premium Model™, the Discounted Cash Flow Model and the Capital Asset Pricing Model”, co-authored with Richard A. Michelfelder, Ph.D., Rutgers University, Pauline M. Ahern, and Frank J. Hanley, The Electricity Journal, May, 2013.
- “Decoupling: Impact on the Risk and Cost of Common Equity of Public Utility Stocks”, before the Society of Utility and Regulatory Financial Analysts: 45th Financial Forum, April 17-18, 2013, Indianapolis, IN.

SPONSOR	DATE	CASE/APPLICANT	DOCKET No.	SUBJECT
<b>Regulatory Commission of Alaska</b>				
Alaska Power Company	07/16	Alaska Power Company	Docket No. TA857-2	Rate of Return
<b>Arizona Corporation Commission</b>				
Arizona Water Company	12/19	Arizona Water Company – Western Group	Docket No. W01445A-19-0278	Rate of Return
Arizona Water Company	08/18	Arizona Water Company – Northern Group	Docket No. W01445A-18-0164	Rate of Return
<b>Colorado Public Utilities Commission</b>				
Summit Utilities, Inc.	04/18	Colorado Natural Gas Company	Docket No. 18AL-0305G	Return on Equity
Atmos Energy Corporation	06/17	Atmos Energy Corporation	Docket No. 17AL-0429G	Return on Equity
<b>Delaware Public Service Commission</b>				
Tidewater Utilities, Inc.	11/13	Tidewater Utilities, Inc.	Docket No. 13-466	Capital Structure
<b>Hawaii Public Utilities Commission</b>				
Lanai Water Company, Inc.	12/19	Lanai Water Company, Inc.	Docket No. 2019-0386	Cost of Service / Rate Design
Manele Water Resources, LLC	8/19	Manele Water Resources, LLC	Docket No. 2019-0311	Cost of Service / Rate Design
Kaupulehu Water Company	02/18	Kaupulehu Water Company	Docket No. 2016-0363	Rate of Return
Aqua Engineers, LLC	05/17	Puhi Sewer & Water Company	Docket No. 2017-0118	Cost of Service / Rate Design
Hawaii Resources, Inc.	09/16	Laie Water Company	Docket No. 2016-0229	Cost of Service / Rate Design
<b>Illinois Commerce Commission</b>				
Utility Services of Illinois, Inc.	11/17	Utility Services of Illinois, Inc.	Docket No. 17-1106	Cost of Service / Rate Design
Aqua Illinois, Inc.	04/17	Aqua Illinois, Inc.	Docket No. 17-0259	Rate of Return
Utility Services of Illinois, Inc.	04/15	Utility Services of Illinois, Inc.	Docket No. 14-0741	Rate of Return
<b>Indiana Utility Regulatory Commission</b>				
Aqua Indiana, Inc.	03/16	Aqua Indiana, Inc. Aboite Wastewater Division	Docket No. 44752	Rate of Return
Twin Lakes, Utilities, Inc.	08/13	Twin Lakes, Utilities, Inc.	Docket No. 44388	Rate of Return
<b>Kansas Corporation Commission</b>				
Atmos Energy	07/19	Atmos Energy	19-ATMG-525-RTS	Rate of Return
<b>Louisiana Public Service Commission</b>				
Louisiana Water Service, Inc.	06/13	Louisiana Water Service, Inc.	Docket No. U-32848	Rate of Return
<b>Maryland Public Service Commission</b>				
FirstEnergy, Inc.	08/18	Potomac Edison Company	Case No. 9490	Rate of Return
<b>Massachusetts Department of Public Utilities</b>				
Unitil Corporation	12/19	Fitchburg Gas & Electric Co. (Elec.)	D.P.U. 19-130	Rate of Return
Unitil Corporation	12/19	Fitchburg Gas & Electric Co. (Gas)	D.P.U. 19-131	Rate of Return

SPONSOR	DATE	CASE/APPLICANT	DOCKET No.	SUBJECT
Liberty Utilities	07/15	Liberty Utilities d/b/a New England Natural Gas Company	Docket No. 15-75	Rate of Return
<b>Mississippi Public Service Commission</b>				
Atmos Energy	03/19	Atmos Energy	Docket No. 2015-UN-049	Capital Structure
Atmos Energy	07/18	Atmos Energy	Docket No. 2015-UN-049	Capital Structure
<b>Missouri Public Service Commission</b>				
Indian Hills Utility Operating Company, Inc.	10/17	Indian Hills Utility Operating Company, Inc.	Case No. SR-2017-0259	Rate of Return
Raccoon Creek Utility Operating Company, Inc.	09/16	Raccoon Creek Utility Operating Company, Inc.	Docket No. SR-2016-0202	Rate of Return
<b>New Jersey Board of Public Utilities</b>				
Aqua New Jersey, Inc.	12/18	Aqua New Jersey, Inc.	Docket No. WR18121351	Rate of Return
Middlesex Water Company	10/17	Middlesex Water Company	Docket No. WR17101049	Rate of Return
Middlesex Water Company	03/15	Middlesex Water Company	Docket No. WR15030391	Rate of Return
The Atlantic City Sewerage Company	10/14	The Atlantic City Sewerage Company	Docket No. WR14101263	Cost of Service / Rate Design
Middlesex Water Company	11/13	Middlesex Water Company	Docket No. WR1311059	Capital Structure
<b>North Carolina Utilities Commission</b>				
Aqua North Carolina, Inc.	12/19	Aqua North Carolina, Inc.	Docket No. W-218 Sub 526	Rate of Return
Carolina Water Service, Inc.	06/19	Carolina Water Service, Inc.	Docket No. W-354 Sub 364	Rate of Return
Carolina Water Service, Inc.	09/18	Carolina Water Service, Inc.	Docket No. W-354 Sub 360	Rate of Return
Aqua North Carolina, Inc.	07/18	Aqua North Carolina, Inc.	Docket No. W-218 Sub 497	Rate of Return
<b>Public Utilities Commission of Ohio</b>				
Aqua Ohio, Inc.	05/16	Aqua Ohio, Inc.	Docket No. 16-0907-WW-AIR	Rate of Return
<b>Pennsylvania Public Utility Commission</b>				
Valley Energy, Inc.	07/19	C&T Enterprises	Docket No. R-2019-3008209	Rate of Return
Wellsboro Electric Company	07/19	C&T Enterprises	Docket No. R-2019-3008208	Rate of Return
Citizens' Electric Company of Lewisburg	07/19	C&T Enterprises	Docket No. R-2019-3008212	Rate of Return
Steeltown Borough Authority	01/19	Steeltown Borough Authority	Docket No. A-2019-3006880	Valuation
Mahoning Township, PA	08/18	Mahoning Township, PA	Docket No. A-2018-3003519	Valuation
SUEZ Water Pennsylvania Inc.	04/18	SUEZ Water Pennsylvania Inc.	Docket No. R-2018-000834	Rate of Return
Columbia Water Company	09/17	Columbia Water Company	Docket No. R-2017-2598203	Rate of Return

SPONSOR	DATE	CASE/APPLICANT	DOCKET No.	SUBJECT
Veolia Energy Philadelphia, Inc.	06/17	Veolia Energy Philadelphia, Inc.	Docket No. R-2017-2593142	Rate of Return
Emporium Water Company	07/14	Emporium Water Company	Docket No. R-2014-2402324	Rate of Return
Columbia Water Company	07/13	Columbia Water Company	Docket No. R-2013-2360798	Rate of Return
Penn Estates Utilities, Inc.	12/11	Penn Estates, Utilities, Inc.	Docket No. R-2011-2255159	Capital Structure / Long-Term Debt Cost Rate
<b>South Carolina Public Service Commission</b>				
Blue Granite Water Co.	12/19	Blue Granite Water Company	Docket No. 2019-292-WS	Rate of Return
Carolina Water Service, Inc.	02/18	Carolina Water Service, Inc.	Docket No. 2017-292-WS	Rate of Return
Carolina Water Service, Inc.	06/15	Carolina Water Service, Inc.	Docket No. 2015-199-WS	Rate of Return
Carolina Water Service, Inc.	11/13	Carolina Water Service, Inc.	Docket No. 2013-275-WS	Rate of Return
United Utility Companies, Inc.	09/13	United Utility Companies, Inc.	Docket No. 2013-199-WS	Rate of Return
Utility Services of South Carolina, Inc.	09/13	Utility Services of South Carolina, Inc.	Docket No. 2013-201-WS	Rate of Return
Tega Cay Water Services, Inc.	11/12	Tega Cay Water Services, Inc.	Docket No. 2012-177-WS	Capital Structure
<b>Virginia State Corporation Commission</b>				
WGL Holdings, Inc.	7/18	Washington Gas Light Company	PUR-2018-00080	Rate of Return
Atmos Energy Corporation	5/18	Atmos Energy Corporation	PUR-2018-00014	Rate of Return
Aqua Virginia, Inc.	7/17	Aqua Virginia, Inc.	PUR-2017-00082	Rate of Return
Massanutten Public Service Corp.	08/14	Massanutten Public Service Corp.	PUE-2014-00035	Rate of Return / Rate Design



**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Application for increase in water and )  
wastewater rates in Charlotte, Highlands, )  
Lake, Lee, Marion, Orange, Pasco, Pinellas, )  
Polk, and Seminole Counties by Utilities, Inc. )  
of Florida. )  
\_\_\_\_\_)

Docket No. 20200139-WS

**EXHIBIT (DWD-2) \_\_\_\_\_**

**OF**

**DYLAN D. D'ASCENDIS**

**on behalf of**

**Utilities, Inc. of Florida**

Utilities, Inc. of Florida  
Table of Contents to  
Exhibit DWD-2

	<u>Schedule</u>
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Utilities, Inc of Florida  
 Recommended Capital Structure and Cost Rates  
 for Ratemaking Purposes  
at December 31, 2019

<u>Type Of Capital</u>	<u>Ratios (1)</u>	<u>Cost Rate</u>		<u>Weighted Cost Rate</u>
Long-Term Debt	45.58%	5.78%	(1)	2.63%
Short-Term Debt	5.03%	4.04%	(1)	0.20%
Common Equity	49.39%	11.75%	(2)	5.80%
 Total	 <u>100.00%</u>			 <u>8.63%</u>

Notes:

- (1) Company-provided.
- (2) From page 2 of this Schedule.

Utilities, Inc of Florida  
Brief Summary of Common Equity Cost Rate

<u>Line No.</u>	<u>Principal Methods</u>	<u>Proxy Group of Seven Water Companies</u>
1.	Discounted Cash Flow Model (DCF) (1)	9.07%
2.	Risk Premium Model (RPM) (2)	10.91%
3.	Capital Asset Pricing Model (CAPM) (3)	10.90%
4.	Market Models Applied to Comparable Risk, Non-Price Regulated Companies (4)	<u>11.48%</u>
5.	Indicated Common Equity Cost Rate before Adjustment for Risk	10.75%
6.	Size Risk Adjustment (5)	1.00%
7.	Recommended Common Equity Cost Rate after Adjustment for Risk	<u><u>11.75%</u></u>

- Notes: (1) From Schedule DWD-3.  
 (2) From page 1 of Schedule DWD-4.  
 (3) From page 1 of Schedule DWD-5.  
 (4) From page 1 of Schedule DWD-7.  
 (5) Business risk adjustment to reflect UIF's smaller relative size to the Utility Proxy Group as detailed in the accompanying direct testimony.

Proxy Group of Seven Water Companies  
CAPITALIZATION AND FINANCIAL STATISTICS (1)  
2014 - 2018, Inclusive

	2019	2018	2017	2016	2015	
	(MILLIONS OF DOLLARS)					
<u>CAPITALIZATION STATISTICS</u>						
<u>AMOUNT OF CAPITAL EMPLOYED</u>						
TOTAL PERMANENT CAPITAL	\$3,888.223	\$3,208.636	\$2,837.657	\$2,680.018	\$2,535.795	
SHORT-TERM DEBT	\$189.862	\$184.221	\$185.250	\$152.691	\$106.277	
TOTAL CAPITAL EMPLOYED	<u>\$4,078.085</u>	<u>\$3,392.857</u>	<u>\$3,022.907</u>	<u>\$2,832.709</u>	<u>\$2,642.072</u>	
<u>INDICATED AVERAGE CAPITAL COST RATES (2)</u>						
TOTAL DEBT	4.30 %	4.75 %	4.829 %	4.943 %	5.079 %	
PREFERRED STOCK	5.84 %	5.92 %	5.91 %	5.91 %	5.91 %	
<u>CAPITAL STRUCTURE RATIOS</u>						
<u>5 YEAR AVERAGE</u>						
<u>BASED ON TOTAL PERMANENT CAPITAL:</u>						
LONG-TERM DEBT	47.17 %	45.15 %	45.58 %	46.14 %	46.49 %	46.11 %
PREFERRED STOCK	0.06	0.09	0.10	0.11	0.11	0.09
COMMON EQUITY	52.77	54.76	54.32	53.75	53.40	53.80
TOTAL	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>BASED ON TOTAL CAPITAL:</u>						
TOTAL DEBT, INCLUDING SHORT-TERM	50.61 %	48.37 %	48.93 %	48.42 %	47.77 %	48.82 %
PREFERRED STOCK	0.06	0.08	0.09	0.10	0.11	0.09
COMMON EQUITY	49.34	51.54	50.98	51.47	52.12	51.09
TOTAL	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>FINANCIAL STATISTICS</u>						
<u>FINANCIAL RATIOS - MARKET BASED</u>						
EARNINGS / PRICE RATIO	2.67 %	6.31 %	7.91 %	3.97 %	4.59 %	5.09 %
MARKET / AVERAGE BOOK RATIO	340.26	289.89	288.75	280.21	229.70	285.76
DIVIDEND YIELD	1.77	3.74	3.69	2.15	2.62	2.79
DIVIDEND PAYOUT RATIO	72.32	60.08	55.80	56.03	57.45	60.34
<u>RATE OF RETURN ON AVERAGE BOOK COMMON EQUITY</u>	9.49 %	10.12 %	11.31 %	10.93 %	10.39 %	10.45 %
<u>TOTAL DEBT / EBITDA (3)</u>	5.54 x	4.22 x	3.42 x	3.41 x	3.42 x	4.00 x
<u>FUNDS FROM OPERATIONS / TOTAL DEBT (4)</u>	14.49 %	21.37 %	22.87 %	23.65 %	25.81 %	21.64 %
<u>TOTAL DEBT / TOTAL CAPITAL</u>	50.61 %	48.37 %	48.93 %	48.42 %	47.77 %	48.82 %

Notes:

- (1) All capitalization and financial statistics for the group are the arithmetic average of the achieved results for each individual company in the group, and are based upon financial statements as originally reported in each year.
- (2) Computed by relating actual total debt interest or preferred stock dividends booked to average of beginning and ending total debt or preferred stock reported to be outstanding.
- (3) Total debt relative to EBITDA (Earnings before Interest, Income Taxes, Depreciation and Amortization).
- (4) Funds from operations (sum of net income, depreciation, amortization, net deferred income tax and investment tax credits, less total AFUDC) plus interest charges as a percentage of total debt.

Source of Information: Company Annual Forms 10-K

Capital Structure Based upon Total Permanent Capital for the  
 Proxy Group of Seven Water Companies  
 2014 - 2018, Inclusive

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>5 YEAR AVERAGE</u>
<u>American States Water Co.</u>						
Long-Term Debt	25.86 %	32.96 %	35.30 %	35.48 %	39.75 %	33.87 %
Short-Term Debt	18.84	9.79	6.48	9.94	3.41	9.69
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	55.30	57.25	58.22	54.58	56.84	56.44
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>American Water Works Company Inc</u>						
Long-Term Debt	55.63 %	52.78 %	51.96 %	50.99 %	50.98 %	52.47 %
Short-Term Debt	5.05	6.66	6.90	6.85	5.41	6.17
Preferred Stock	0.03	0.05	0.06	0.08	0.10	0.06
Common Equity	39.29	40.51	41.08	42.08	43.51	41.30
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>California Water Service Group</u>						
Long-Term Debt	45.85 %	50.61 %	35.44 %	42.44 %	43.44 %	43.56 %
Short-Term Debt	9.93	4.04	18.34	7.39	2.81	8.50
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	44.22	45.35	46.22	50.17	53.75	47.94
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>Essential Utilities, Inc.</u>						
Long-Term Debt	44.06 %	55.87 %	52.21 %	50.72 %	50.52 %	50.67 %
Short-Term Debt	0.37	0.34	0.09	0.17	0.47	0.29
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	55.57	43.79	47.70	49.11	49.01	49.04
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>Middlesex Water Co.</u>						
Long-Term Debt	40.76 %	34.83 %	35.98 %	37.66 %	40.10 %	37.87 %
Short-Term Debt	3.42	10.55	6.90	3.21	0.85	4.99
Preferred Stock	0.36	0.53	0.60	0.65	0.68	0.56
Common Equity	55.46	54.09	56.52	58.48	58.37	56.58
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>SIW Group</u>						
Long-Term Debt	56.45 %	30.37 %	46.89 %	49.86 %	47.88 %	46.29 %
Short-Term Debt	5.07	7.04	2.72	1.63	4.31	4.15
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	38.48	62.59	50.39	48.51	47.81	49.56
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>York Water Co.</u>						
Long-Term Debt	42.95 %	42.33 %	42.81 %	42.60 %	44.46 %	43.03 %
Short-Term Debt	0.00	0.45	0.48	0.00	0.00	0.19
Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00
Common Equity	57.05	57.22	56.71	57.40	55.54	56.78
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
<u>Proxy Group of Seven Water Companies</u>						
Long-Term Debt	44.51 %	42.82 %	42.94 %	44.25 %	45.30 %	43.97 %
Short-Term Debt	6.10	5.55	5.99	4.17	2.47	4.85
Preferred Stock	0.05	0.08	0.09	0.10	0.11	0.09
Common Equity	49.34	51.55	50.98	51.48	52.12	51.09
Total Capital	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

Source of Information  
 Annual Forms 10-K

Utilities, Inc of Florida  
 Indicated Common Equity Cost Rate Using the Discounted Cash Flow Model for  
 Proxy Group of Seven Water Companies

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Average Dividend Yield (1)	Value Line Projected Five Year Growth in EPS (2)	Zack's Five Year Projected Growth Rate in EPS	Yahoo! Finance Projected Five Year Growth in EPS	Bloomberg Projected Five Year Growth in EPS	Average Projected Five Year Growth in EPS (3)	Adjusted Dividend Yield (4)	Indicated Common Equity Cost Rate (5)
1.45	6.50	NA	6.00	6.00	6.17	1.49	7.66
1.73	8.50	8.10	8.20	8.19	8.25	1.80	10.05
1.66	6.50	NA	9.80	9.00	8.43	1.73	10.16
2.11	10.00	5.90	6.40	6.69	7.25	2.19	9.44
1.66	6.00	NA	2.70	NA	4.35	1.70	6.05
2.04	6.00	4.00	14.00	7.00	7.75	2.12	9.87
1.66	7.00	NA	4.90	NA	5.95	1.71	7.66
						Average	8.70
						Median	9.44
						Average of Mean and Median	9.07

NA= Not Available

Notes:

- (1) Indicated dividend at 04/30/2020 divided by the average closing price of the last 60 trading days ending 04/30/2020 for each company.
- (2) From pages 2 through 8 of this Schedule.
- (3) Average of columns 2 through 4 excluding negative growth rates.
- (4) This reflects a growth rate component equal to one-half the conclusion of growth rate (from column 5) x column 1 to reflect the periodic payment of dividends (Gordon Model) as opposed to the continuous payment. Thus, for American States Water Co.,  $1.45\% \times (1 + (1/2 \times 6.17\%)) = 1.49\%$ .
- (5) Column 5 + column 6.

Source of Information:

Value Line Investment Survey  
 www.zacks.com Downloaded on 04/30/2020  
 www.yahoo.com Downloaded on 04/30/2020  
 Bloomberg Professional Services

AMER. STATES WATER NYSE-AWR		RECENT PRICE	84.60	P/E RATIO	37.6 (Trailing: 37.1 Median: 22.0)	RELATIVE P/E RATIO	2.85	DIV'D YLD	1.5%	VALUE LINE																																																																																																																							
<b>TIMELINESS</b> 2 Lowered 3/20/20	<b>SAFETY</b> 2 Raised 7/20/12	<b>TECHNICAL</b> 3 Raised 3/6/20	<b>BETA</b> .60 (1.00 = Market)	<b>LEGENDS</b> — 1.35 x Dividends p sh divided by Interest Rate ..... Relative Price Strength 2-for-1 split 9/13 Options: Yes Shaded area indicates recession		<b>18-Month Target Price Range</b> Low-High Midpoint (% to Mid) \$68-\$116 \$92 (10%)		<b>2023-25 PROJECTIONS</b> High Price 80 Gain (-5%) Ann'l Total Return 1% Low Price 60 (-30%) -6%		<b>Institutional Decisions</b> 202019 3Q2019 4Q2019 to Buy 139 149 137 to Sell 109 124 145 Hld's(000) 26893 27173 26734																																																																																																																							
<b>2024</b> 6.81 <b>2025</b> 1.11 <b>2026</b> .53 <b>2027</b> .44 <b>2028</b> 2.51 <b>2029</b> 7.51 <b>2030</b> 33.50 <b>2031</b> 23.2 <b>2032</b> 1.23 <b>2033</b> 3.6%		<b>2024</b> 7.03 <b>2025</b> 1.32 <b>2026</b> .66 <b>2027</b> .45 <b>2028</b> 2.12 <b>2029</b> 7.86 <b>2030</b> 33.60 <b>2031</b> 21.9 <b>2032</b> 1.17 <b>2033</b> 3.1%		<b>2024</b> 7.88 <b>2025</b> 1.45 <b>2026</b> .67 <b>2027</b> .46 <b>2028</b> 1.95 <b>2029</b> 8.32 <b>2030</b> 34.10 <b>2031</b> 27.7 <b>2032</b> 1.50 <b>2033</b> 2.5%		<b>2024</b> 8.75 <b>2025</b> 1.65 <b>2026</b> .81 <b>2027</b> .48 <b>2028</b> 2.23 <b>2029</b> 8.97 <b>2030</b> 34.60 <b>2031</b> 24.0 <b>2032</b> 1.27 <b>2033</b> 2.9%		<b>2024</b> 9.21 <b>2025</b> 1.69 <b>2026</b> .78 <b>2027</b> .51 <b>2028</b> 2.23 <b>2029</b> 9.70 <b>2030</b> 37.06 <b>2031</b> 21.2 <b>2032</b> 1.41 <b>2033</b> 2.9%		<b>2024</b> 9.74 <b>2025</b> 1.70 <b>2026</b> .81 <b>2027</b> .51 <b>2028</b> 2.09 <b>2029</b> 9.70 <b>2030</b> 37.06 <b>2031</b> 15.7 <b>2032</b> .97 <b>2033</b> 3.1%		<b>2024</b> 10.71 <b>2025</b> 2.13 <b>2026</b> 1.12 <b>2027</b> .55 <b>2028</b> 2.13 <b>2029</b> 10.84 <b>2030</b> 37.70 <b>2031</b> 15.4 <b>2032</b> .97 <b>2033</b> 3.2%		<b>2024</b> 11.12 <b>2025</b> 2.48 <b>2026</b> 1.41 <b>2027</b> .64 <b>2028</b> 2.13 <b>2029</b> 11.80 <b>2030</b> 38.53 <b>2031</b> 17.2 <b>2032</b> .97 <b>2033</b> 2.7%		<b>2024</b> 12.12 <b>2025</b> 2.65 <b>2026</b> 1.61 <b>2027</b> .87 <b>2028</b> 2.52 <b>2029</b> 12.72 <b>2030</b> 38.72 <b>2031</b> 20.1 <b>2032</b> 1.06 <b>2033</b> 2.2%		<b>2024</b> 12.17 <b>2025</b> 2.81 <b>2026</b> 1.61 <b>2027</b> .91 <b>2028</b> 2.39 <b>2029</b> 13.24 <b>2030</b> 36.50 <b>2031</b> 24.6 <b>2032</b> 1.24 <b>2033</b> 2.2%		<b>2024</b> 12.56 <b>2025</b> 2.70 <b>2026</b> 1.62 <b>2027</b> .99 <b>2028</b> 3.55 <b>2029</b> 14.45 <b>2030</b> 36.68 <b>2031</b> 25.7 <b>2032</b> 1.34 <b>2033</b> 2.0%		<b>2024</b> 11.92 <b>2025</b> 2.96 <b>2026</b> 1.88 <b>2027</b> .99 <b>2028</b> 3.44 <b>2029</b> 15.19 <b>2030</b> 36.76 <b>2031</b> 34.0 <b>2032</b> 1.84 <b>2033</b> 1.5%		<b>2024</b> 12.01 <b>2025</b> 2.84 <b>2026</b> 2.28 <b>2027</b> 1.25 <b>2028</b> 4.12 <b>2029</b> 16.33 <b>2030</b> 36.85 <b>2031</b> 34.4 <b>2032</b> 1.87 <b>2033</b> 1.5%		<b>2024</b> 11.88 <b>2025</b> 3.25 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 17.15 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 12.86 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.25 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 12.95 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 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<b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 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2.0%		<b>2024</b> 13.30 <b>2025</b> 3.55 <b>2026</b> 2.40 <b>2027</b> 1.35 <b>2028</b> 3.50 <b>2029</b> 18.10 <b>2030</b> 37.00 <b>2031</b> 37.25 <b>2032</b> 3.0% <b>2033</b> 2.0%		<b></b>	



AMERICAN WATER NYSE-AWK		RECENT PRICE	P/E RATIO	(Trailing: 36.9 Median: 22.0)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
<b>TIMELINESS</b> 3 Lowered 4/3/20	High: 23.0 25.8 32.8 39.4 45.1 56.2 61.2 85.2 92.4 98.2 129.9 141.7	126.72	36.0		2.73	1.7%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
<b>SAFETY</b> 3 New 7/25/08	Low: 16.2 19.4 25.2 31.3 37.0 41.1 48.4 58.9 70.0 76.0 88.0 92.0																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
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<b>BETA</b> .50 (1.00 = Market)	<b>LEGENDS</b> --- 1.10 x Dividends p sh divided by Interest Rate ... Relative Price Strength Options: Yes Shaded area indicates recession																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																							
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<b>2023-25 PROJECTIONS</b>	<table border="1"> <tr> <th>High</th> <th>Price</th> <th>Gain</th> <th>Ann'l Total</th> <th>Return</th> <th colspan="3"></th> </tr> <tr> <td>140</td> <td>140</td> <td>(+10%)</td> <td>5%</td> <td>5%</td> <td colspan="3"></td> </tr> <tr> <td>90</td> <td>90</td> <td>(-30%)</td> <td>-6%</td> <td>-6%</td> <td colspan="3"></td> </tr> </table>							High	Price	Gain	Ann'l Total	Return				140	140	(+10%)	5%	5%				90	90	(-30%)	-6%	-6%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												
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<b>Institutional Decisions</b>	<table border="1"> <tr> <th>202019</th> <th>3Q2019</th> <th>4Q2019</th> <th>Percent</th> <th>21</th> <th colspan="3"></th> </tr> <tr> <td>to Buy</td> <td>360</td> <td>385</td> <td>393</td> <td>14</td> <td colspan="3"></td> </tr> <tr> <td>to Sell</td> <td>331</td> <td>322</td> <td>361</td> <td>7</td> <td colspan="3"></td> </tr> <tr> <td>Hld's(000)</td> <td>155051</td> <td>153329</td> <td>155435</td> <td></td> <td colspan="3"></td> </tr> </table>							202019	3Q2019	4Q2019	Percent	21				to Buy	360	385	393	14				to Sell	331	322	361	7				Hld's(000)	155051	153329	155435																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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<td>--</td><td>--</td><td>d.97</td><td>d2.14</td><td>1.10</td><td>1.25</td><td>1.53</td><td>1.72</td><td>2.11</td><td>2.06</td><td>2.39</td><td>2.64</td><td>2.62</td><td>2.38</td><td>3.15</td><td>3.43</td><td><b>3.70</b></td><td><b>4.00</b></td><td>Earnings per sh <sup>A</sup></td><td>4.90</td> </tr> <tr> <td>--</td><td>--</td><td>--</td><td>--</td><td>.40</td><td>.82</td><td>.86</td><td>.90</td><td>1.21</td><td>.84</td><td>1.21</td><td>1.33</td><td>1.47</td><td>1.62</td><td>1.78</td><td>1.96</td><td><b>2.10</b></td><td><b>2.25</b></td><td>Div'd Decl'd per sh <sup>B</sup></td><td>2.90</td> </tr> <tr> <td>--</td><td>--</td><td>4.31</td><td>4.74</td><td>6.31</td><td>4.50</td><td>4.38</td><td>5.27</td><td>5.25</td><td>5.50</td><td>5.33</td><td>6.51</td><td>7.36</td><td>8.04</td><td>8.78</td><td>9.15</td><td><b>8.70</b></td><td><b>9.20</b></td><td>Cap'l Spending per sh</td><td>9.00</td> </tr> <tr> <td>--</td><td>--</td><td>23.86</td><td>28.39</td><td>25.64</td><td>22.91</td><td>23.59</td><td>24.11</td><td>25.11</td><td>26.52</td><td>27.39</td><td>28.25</td><td>29.24</td><td>30.13</td><td>32.42</td><td>33.83</td><td><b>35.35</b></td><td><b>36.95</b></td><td>Book Value per sh <sup>D</sup></td><td>42.50</td> </tr> <tr> <td>--</td><td>--</td><td>160.00</td><td>160.00</td><td>160.00</td><td>174.63</td><td>175.00</td><td>175.66</td><td>176.99</td><td>178.25</td><td>179.46</td><td>178.28</td><td>178.10</td><td>178.44</td><td>180.68</td><td>180.81</td><td><b>181.00</b></td><td><b>182.00</b></td><td>Common Shs Outst'g <sup>C</sup></td><td>189.00</td> </tr> <tr> <td>--</td><td>--</td><td>--</td><td>--</td><td>18.9</td><td>15.6</td><td>14.6</td><td>16.7</td><td>16.7</td><td>19.9</td><td>20.0</td><td>20.5</td><td>27.7</td><td>33.8</td><td>32.9</td><td>32.9</td><td>32.9</td><td>32.9</td><td>Avg Ann'l P/E Ratio</td><td>23.5</td> </tr> <tr> <td>--</td><td>--</td><td>--</td><td>--</td><td>1.14</td><td>1.04</td><td>.93</td><td>1.05</td><td>1.06</td><td>1.12</td><td>1.05</td><td>1.03</td><td>1.45</td><td>1.70</td><td>1.47</td><td>1.79</td><td>1.79</td><td>1.79</td><td>Relative P/E Ratio</td><td>1.30</td> </tr> <tr> <td>--</td><td>--</td><td>--</td><td>--</td><td>1.9</td><td>4.2</td><td>3.8</td><td>3.1</td><td>3.4</td><td>2.0</td><td>2.5</td><td>2.5</td><td>2.0</td><td>2.0</td><td>2.1</td><td>1.7</td><td>1.7</td><td>1.7</td><td>Avg Ann'l Div'd Yield</td><td>2.50</td> </tr> <tr> <td colspan="4"><b>CAPITAL STRUCTURE</b> as of 12/31/19</td> <td colspan="17"> <table border="1"> <tr> <td>2710.7</td><td>2666.2</td><td>2876.9</td><td>2901.9</td><td>3011.3</td><td>3159.0</td><td>3302.0</td><td>3357.0</td><td>3440.0</td><td>3610.0</td><td>3785</td><td>3975</td><td>Revenues (\$mill)</td><td>4675</td> </tr> <tr> <td>267.8</td><td>304.9</td><td>374.3</td><td>369.3</td><td>429.8</td><td>476.0</td><td>468.0</td><td>426.0</td><td>567.0</td><td>621.0</td><td>670</td><td>730</td><td>Net Profit (\$mill)</td><td>925</td> </tr> <tr> <td>40.4%</td><td>39.5%</td><td>40.7%</td><td>39.1%</td><td>39.4%</td><td>39.1%</td><td>39.2%</td><td>53.3%</td><td>28.2%</td><td>25.5%</td><td>21.0%</td><td>21.0%</td><td>Income Tax Rate</td><td>21.0%</td> </tr> <tr> <td>--</td><td>--</td><td>6.2%</td><td>5.1%</td><td>--</td><td>--</td><td>--</td><td>--</td><td>5.1%</td><td>4.0%</td><td>5.0%</td><td>5.0%</td><td>AFUDC % to Net Profit</td><td>5.0%</td> </tr> <tr> <td>56.8%</td><td>55.7%</td><td>53.9%</td><td>52.4%</td><td>52.4%</td><td>53.7%</td><td>52.4%</td><td>54.7%</td><td>56.3%</td><td>58.5%</td><td>58.5%</td><td>59.0%</td><td>Long-Term Debt Ratio</td><td>59.0%</td> </tr> <tr> <td>43.2%</td><td>44.2%</td><td>46.1%</td><td>47.6%</td><td>47.4%</td><td>46.2%</td><td>47.5%</td><td>45.3%</td><td>43.6%</td><td>41.4%</td><td>41.5%</td><td>41.0%</td><td>Common Equity Ratio</td><td>41.0%</td> </tr> <tr> <td>9561.3</td><td>9580.3</td><td>9635.5</td><td>9940.7</td><td>10364</td><td>10911</td><td>10967</td><td>11875</td><td>13433</td><td>14760</td><td>15400</td><td>16325</td><td>Total Capital (\$mill)</td><td>20000</td> </tr> <tr> <td>11059</td><td>11021</td><td>11739</td><td>12391</td><td>12900</td><td>13933</td><td>14992</td><td>16246</td><td>17409</td><td>18232</td><td>19100</td><td>19900</td><td>Net Plant (\$mill)</td><td>22200</td> </tr> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> 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Past Est'd '17-'19 of change (per sh)</td> <td colspan="17"> <table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table> </td> </tr> <tr> <td colspan="4"><b>Revenues</b> 3.0% 3.0% 4.5%</td> <td colspan="17"> <table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table> </td> </tr> <tr> <td colspan="4"><b>"Cash Flow"</b> 13.0% 6.0% 6.5%</td> <td colspan="17"> <table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table> </td> </tr> <tr> <td colspan="4"><b>Earnings</b> 45.5% 6.5% 8.5%</td> <td 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<sup>B</sup>	2.90	--	--	4.31	4.74	6.31	4.50	4.38	5.27	5.25	5.50	5.33	6.51	7.36	8.04	8.78	9.15	<b>8.70</b>	<b>9.20</b>	Cap'l Spending per sh	9.00	--	--	23.86	28.39	25.64	22.91	23.59	24.11	25.11	26.52	27.39	28.25	29.24	30.13	32.42	33.83	<b>35.35</b>	<b>36.95</b>	Book Value per sh <sup>D</sup>	42.50	--	--	160.00	160.00	160.00	174.63	175.00	175.66	176.99	178.25	179.46	178.28	178.10	178.44	180.68	180.81	<b>181.00</b>	<b>182.00</b>	Common Shs Outst'g <sup>C</sup>	189.00	--	--	--	--	18.9	15.6	14.6	16.7	16.7	19.9	20.0	20.5	27.7	33.8	32.9	32.9	32.9	32.9	Avg Ann'l P/E Ratio	23.5	--	--	--	--	1.14	1.04	.93	1.05	1.06	1.12	1.05	1.03	1.45	1.70	1.47	1.79	1.79	1.79	Relative P/E Ratio	1.30	--	--	--	--	1.9	4.2	3.8	3.1	3.4	2.0	2.5	2.5	2.0	2.0	2.1	1.7	1.7	1.7	Avg Ann'l Div'd Yield	2.50	<b>CAPITAL STRUCTURE</b> as of 12/31/19				<table border="1"> <tr> <td>2710.7</td><td>2666.2</td><td>2876.9</td><td>2901.9</td><td>3011.3</td><td>3159.0</td><td>3302.0</td><td>3357.0</td><td>3440.0</td><td>3610.0</td><td>3785</td><td>3975</td><td>Revenues (\$mill)</td><td>4675</td> </tr> <tr> <td>267.8</td><td>304.9</td><td>374.3</td><td>369.3</td><td>429.8</td><td>476.0</td><td>468.0</td><td>426.0</td><td>567.0</td><td>621.0</td><td>670</td><td>730</td><td>Net Profit (\$mill)</td><td>925</td> </tr> <tr> <td>40.4%</td><td>39.5%</td><td>40.7%</td><td>39.1%</td><td>39.4%</td><td>39.1%</td><td>39.2%</td><td>53.3%</td><td>28.2%</td><td>25.5%</td><td>21.0%</td><td>21.0%</td><td>Income Tax Rate</td><td>21.0%</td> </tr> <tr> <td>--</td><td>--</td><td>6.2%</td><td>5.1%</td><td>--</td><td>--</td><td>--</td><td>--</td><td>5.1%</td><td>4.0%</td><td>5.0%</td><td>5.0%</td><td>AFUDC % to Net Profit</td><td>5.0%</td> </tr> <tr> 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Leases, Uncapitalized:</b> Annual rentals \$14.0 mill.				<table border="1"> <tr> <td>56.8%</td><td>55.7%</td><td>53.9%</td><td>52.4%</td><td>52.4%</td><td>53.7%</td><td>52.4%</td><td>54.7%</td><td>56.3%</td><td>58.5%</td><td>58.5%</td><td>59.0%</td><td>Long-Term Debt Ratio</td><td>59.0%</td> </tr> <tr> <td>43.2%</td><td>44.2%</td><td>46.1%</td><td>47.6%</td><td>47.4%</td><td>46.2%</td><td>47.5%</td><td>45.3%</td><td>43.6%</td><td>41.4%</td><td>41.5%</td><td>41.0%</td><td>Common Equity Ratio</td><td>41.0%</td> </tr> </table>																	56.8%	55.7%	53.9%	52.4%	52.4%	53.7%	52.4%	54.7%	56.3%	58.5%	58.5%	59.0%	Long-Term Debt Ratio	59.0%	43.2%	44.2%	46.1%	47.6%	47.4%	46.2%	47.5%	45.3%	43.6%	41.4%	41.5%	41.0%	Common Equity Ratio	41.0%	<b>Pension Assets</b> 12/19 \$174.0 mill				<table border="1"> <tr> <td>9561.3</td><td>9580.3</td><td>9635.5</td><td>9940.7</td><td>10364</td><td>10911</td><td>10967</td><td>11875</td><td>13433</td><td>14760</td><td>15400</td><td>16325</td><td>Total Capital (\$mill)</td><td>20000</td> </tr> <tr> <td>11059</td><td>11021</td><td>11739</td><td>12391</td><td>12900</td><td>13933</td><td>14992</td><td>16246</td><td>17409</td><td>18232</td><td>19100</td><td>19900</td><td>Net Plant (\$mill)</td><td>22200</td> </tr> </table>																	9561.3	9580.3	9635.5	9940.7	10364	10911	10967	11875	13433	14760	15400	16325	Total Capital (\$mill)	20000	11059	11021	11739	12391	12900	13933	14992	16246	17409	18232	19100	19900	Net Plant (\$mill)	22200	<b>Pfd Stock</b> \$5.0 mill.				<table border="1"> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> <td>6.5%</td><td>7.2%</td><td>8.4%</td><td>7.8%</td><td>8.7%</td><td>9.4%</td><td>9.0%</td><td>7.9%</td><td>9.7%</td><td>10.1%</td><td>10.5%</td><td>11.0%</td><td>Return on Shr. 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Oblig.</b> \$2161.0 mill.				<table border="1"> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> <td>6.5%</td><td>7.2%</td><td>8.4%</td><td>7.8%</td><td>8.7%</td><td>9.4%</td><td>9.0%</td><td>7.9%</td><td>9.7%</td><td>10.1%</td><td>10.5%</td><td>11.0%</td><td>Return on Shr. 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Pfd Div'd</b> \$4 mill				<table border="1"> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> <td>6.5%</td><td>7.2%</td><td>8.4%</td><td>7.8%</td><td>8.7%</td><td>9.4%</td><td>9.0%</td><td>7.9%</td><td>9.7%</td><td>10.1%</td><td>10.5%</td><td>11.0%</td><td>Return on Shr. 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Common Stock</b> 180,974,719 shares as of 2/13/20				<table border="1"> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> <td>6.5%</td><td>7.2%</td><td>8.4%</td><td>7.8%</td><td>8.7%</td><td>9.4%</td><td>9.0%</td><td>7.9%</td><td>9.7%</td><td>10.1%</td><td>10.5%</td><td>11.0%</td><td>Return on Shr. 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>MARKET CAP:</b> \$22.9 billion (Large Cap)				<table border="1"> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> <td>6.5%</td><td>7.2%</td><td>8.4%</td><td>7.8%</td><td>8.7%</td><td>9.4%</td><td>9.0%</td><td>7.9%</td><td>9.7%</td><td>10.1%</td><td>10.5%</td><td>11.0%</td><td>Return on Shr. 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>CURRENT POSITION</b> 2017 2018 12/31/19				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Cash Assets</b> 82 158 91				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Accts Receivable</b> 272 301 294				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Other</b> 366 322 900				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Current Assets</b> 720 781 1285				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Accts Payable</b> 195 175 203				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Debt Due</b> 1227 1035 814				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Other</b> 903 884 1028				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Current Liab.</b> 2325 2094 2045				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>ANNUAL RATES</b> Past 10 Yrs. 5 Yrs. Past Est'd '17-'19 of change (per sh)				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Revenues</b> 3.0% 3.0% 4.5%				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>"Cash Flow"</b> 13.0% 6.0% 6.5%				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Earnings</b> 45.5% 6.5% 8.5%				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Dividends</b> 16.0% 10.5% 8.5%				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Book Value</b> 2.5% 4.0% 5.0%				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>QUARTERLY REVENUES</b> (\$mill.)				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>Cal-endar</b> Mar.31 Jun. 30 Sep. 30 Dec. 31 Full Year				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>2017</b> 756.0 844.0 936.0 821.0 3357.0				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>2018</b> 761.0 853.0 976.0 850.0 3440.0				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%</td><td>68%</td><td>56%</td><td>57%</td><td>57%</td><td>56%</td><td>All Div'ds to Net Prof</td><td>59%</td> </tr> </table>																	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%	<b>2019</b> 813.0 882.0 1013.0 902.0 3610.0				<table border="1"> <tr> <td>56%</td><td>52%</td><td>57%</td><td>40%</td><td>50%</td><td>50%</td><td>56%&lt;/</td></tr></table>																	56%	52%	57%	40%	50%	50%	56%</
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--	--	d.97	d2.14	1.10	1.25	1.53	1.72	2.11	2.06	2.39	2.64	2.62	2.38	3.15	3.43	<b>3.70</b>	<b>4.00</b>	Earnings per sh <sup>A</sup>	4.90																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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<b>CAPITAL STRUCTURE</b> as of 12/31/19				<table border="1"> <tr> <td>2710.7</td><td>2666.2</td><td>2876.9</td><td>2901.9</td><td>3011.3</td><td>3159.0</td><td>3302.0</td><td>3357.0</td><td>3440.0</td><td>3610.0</td><td>3785</td><td>3975</td><td>Revenues (\$mill)</td><td>4675</td> </tr> <tr> <td>267.8</td><td>304.9</td><td>374.3</td><td>369.3</td><td>429.8</td><td>476.0</td><td>468.0</td><td>426.0</td><td>567.0</td><td>621.0</td><td>670</td><td>730</td><td>Net Profit (\$mill)</td><td>925</td> </tr> <tr> <td>40.4%</td><td>39.5%</td><td>40.7%</td><td>39.1%</td><td>39.4%</td><td>39.1%</td><td>39.2%</td><td>53.3%</td><td>28.2%</td><td>25.5%</td><td>21.0%</td><td>21.0%</td><td>Income Tax Rate</td><td>21.0%</td> </tr> <tr> <td>--</td><td>--</td><td>6.2%</td><td>5.1%</td><td>--</td><td>--</td><td>--</td><td>--</td><td>5.1%</td><td>4.0%</td><td>5.0%</td><td>5.0%</td><td>AFUDC % to Net Profit</td><td>5.0%</td> </tr> <tr> <td>56.8%</td><td>55.7%</td><td>53.9%</td><td>52.4%</td><td>52.4%</td><td>53.7%</td><td>52.4%</td><td>54.7%</td><td>56.3%</td><td>58.5%</td><td>58.5%</td><td>59.0%</td><td>Long-Term Debt Ratio</td><td>59.0%</td> </tr> <tr> <td>43.2%</td><td>44.2%</td><td>46.1%</td><td>47.6%</td><td>47.4%</td><td>46.2%</td><td>47.5%</td><td>45.3%</td><td>43.6%</td><td>41.4%</td><td>41.5%</td><td>41.0%</td><td>Common Equity Ratio</td><td>41.0%</td> </tr> <tr> <td>9561.3</td><td>9580.3</td><td>9635.5</td><td>9940.7</td><td>10364</td><td>10911</td><td>10967</td><td>11875</td><td>13433</td><td>14760</td><td>15400</td><td>16325</td><td>Total Capital (\$mill)</td><td>20000</td> </tr> <tr> <td>11059</td><td>11021</td><td>11739</td><td>12391</td><td>12900</td><td>13933</td><td>14992</td><td>16246</td><td>17409</td><td>18232</td><td>19100</td><td>19900</td><td>Net Plant (\$mill)</td><td>22200</td> </tr> <tr> <td>4.4%</td><td>4.8%</td><td>5.4%</td><td>5.1%</td><td>5.5%</td><td>5.7%</td><td>5.6%</td><td>4.9%</td><td>5.4%</td><td>5.4%</td><td>5.5%</td><td>6.0%</td><td>Return on Total Cap'l</td><td>6.0%</td> </tr> <tr> <td>6.5%</td><td>7.2%</td><td>8.4%</td><td>7.8%</td><td>8.7%</td><td>9.4%</td><td>9.0%</td><td>7.9%</td><td>9.7%</td><td>10.1%</td><td>10.5%</td><td>11.0%</td><td>Return on Shr. 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Equity	11.5%	6.5%	7.2%	8.4%	7.8%	8.7%	9.4%	9.0%	7.9%	9.7%	10.1%	10.5%	11.0%	Return on Com Equity	11.5%	2.8%	3.5%	3.6%	4.7%	4.3%	4.7%	4.0%	2.5%	4.2%	4.4%	4.5%	4.5%	Retained to Com Eq	4.5%	56%	52%	57%	40%	50%	50%	56%	68%	56%	57%	57%	56%	All Div'ds to Net Prof	59%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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ESSENTIAL UTIL. NYSE-WTRG										RECENT PRICE	P/E RATIO	(Trailing: 43.1 Median: 23.0)	RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE				
TIMELINESS	1	Raised 12/20/19	High: 17.2	18.4	19.0	21.5	28.1	28.2	31.1	35.8	39.6	39.4	47.3	54.5	Target Price	Range 2025			
SAFETY	2	Raised 4/20/12	Low: 12.3	13.2	15.4	16.8	20.6	22.4	24.4	28.0	29.4	32.1	32.7	30.4	2023	2024			
TECHNICAL	3	Raised 3/6/20														80			
BETA	.60	(1.00 = Market)														60			
18-Month Target Price Range																			
Low-High	Midpoint (% to Mid)																50		
\$35-\$68	\$52 (20%)																40		
2023-25 PROJECTIONS																			
High	Price	Gain	Ann'l Total														30		
Low	55	(+30%)	9%														25		
	40	(-5%)	1%														20		
Institutional Decisions																			
to Buy	280	248	274														15		
to Sell	167	210	242														10		
Hld's(000)	140358	143792	149836														5		
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
2.78	3.08	3.23	3.61	3.71	3.93	4.21	4.10	4.32	4.32	4.37	4.61	4.62	4.56	4.71	4.03	6.50	7.70	Revenues per sh	8.70
.87	.97	1.01	1.10	1.14	1.29	1.42	1.45	1.51	1.82	1.89	1.87	2.07	2.12	1.90	1.73	2.40	2.65	"Cash Flow" per sh	3.50
.51	.57	.56	.57	.58	.62	.72	.83	.87	1.16	1.20	1.14	1.32	1.35	1.08	1.04	1.45	1.55	Earnings per sh <sup>A</sup>	2.05
.29	.32	.35	.38	.41	.44	.47	.50	.54	.58	.63	.69	.74	.79	.85	.91	.97	1.05	Div'd Decl'd per sh <sup>B</sup>	1.30
1.23	1.47	1.64	1.43	1.58	1.66	1.89	1.90	1.98	1.73	1.84	2.07	2.16	2.69	2.78	2.49	3.75	4.45	Cap'l Spending per sh	4.75
4.71	5.04	5.57	5.85	6.26	6.50	6.81	7.21	7.90	8.63	9.27	9.78	10.43	11.02	11.28	17.58	17.35	17.60	Book Value per sh	19.55
158.97	161.21	165.41	166.75	169.21	170.61	172.46	173.60	175.43	177.93	178.59	176.54	177.39	177.71	178.09	220.76	225.00	227.00	Common Shs Outst'g <sup>C</sup>	230.00
25.1	31.8	34.7	32.0	24.9	23.1	21.1	21.3	21.9	21.2	20.8	23.5	23.9	24.7	32.6	39.1	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	24.0
1.33	1.69	1.87	1.70	1.50	1.54	1.34	1.34	1.39	1.19	1.09	1.18	1.25	1.24	1.76	2.12			Relative P/E Ratio	1.35
2.3%	1.8%	1.8%	2.1%	2.8%	3.1%	3.1%	2.8%	2.8%	2.4%	2.5%	2.6%	2.3%	2.4%	2.4%	2.2%			Avg Ann'l Div'd Yield	2.6%
CAPITAL STRUCTURE as of 12/31/19																			
Total Debt \$3074.1 mill. Due in 5 Yrs \$252.0 mill.																			
LT Debt \$2943.3 mill. LT Interest \$123.5 mill. (43% of Cap'l)																			
Pension Assets-12/19 \$266.4 mill. Oblig. \$310.5 mill.																			
Pfd Stock None																			
Common Stock 222,781,536 shares as of 2/19/20																			
MARKET CAP: \$9.6 billion (Large Cap)																			
CURRENT POSITION (\$MILL.)																			
2017 2018 12/31/19																			
Cash Assets 4.2 3.6 1868.9																			
Receivables 98.6 101.2 67.1																			
Inventory (AvgCst) 14.4 15.8 18.4																			
Other 14.0 26.6 58.3																			
Current Assets 131.2 147.2 2012.7																			
Accts Payable 59.2 77.3 74.9																			
Debt Due 117.4 160.0 130.8																			
Other 107.9 161.7 113.1																			
Current Liab. 284.5 399.0 318.8																			
ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '17-'19 of change (per sh)																			
Revenues 1.5% 5% 12.0%																			
"Cash Flow" 5.0% 2.0% 10.5%																			
Earnings 7.0% 1.5% 10.0%																			
Dividends 7.5% 8.0% 7.5%																			
Book Value 8.0% 9.0% 6.5%																			
Cal-endar QUARTERLY REVENUES (\$ mill.) Full Year																			
Mar.31 Jun.30 Sep.30 Dec.31																			
2017 187.8 203.4 215.0 203.3 809.5																			
2018 194.3 211.9 226.2 205.7 838.1																			
2019 201.1 218.9 243.6 226.1 889.7																			
2020 215 385 410 450 1460																			
2021 390 410 450 500 1750																			
Cal-endar EARNINGS PER SHARE <sup>A</sup> Full Year																			
Mar.31 Jun.30 Sep.30 Dec.31																			
2017 .28 .34 .43 .30 1.35																			
2018 .29 .37 .44 d.02 1.08																			
2019 .09 .25 .38 .28 1.04																			
2020 .25 .35 .45 .40 1.45																			
2021 .28 .40 .45 .42 1.55																			
Cal-endar QUARTERLY DIVIDENDS PAID <sup>B</sup> Full Year																			
Mar.31 Jun.30 Sep.30 Dec.31																			
2016 .178 .178 .1913 .1913 .74																			
2017 .1913 .1913 .2047 .2047 .79																			
2018 .2047 .2047 .219 .219 .85																			
2019 .219 .219 .2343 .2343 .91																			
2020 .2343																			
BUSINESS: Essential Utilities, Inc. became the new name for Aqua America on Feb. 3, 2020, to reflect the acquisition of Peoples, a natural gas utility, which occurred in 3/20. In 2019, Aqua Amer. provided water and wastewater services to about three million people in PA, OH, TX, IL, NC, NJ, IN, and VA. Employed 1,583. Acquired AquaSource, 7/13; North Maine Utilities, 7/15; and others.																			
Essential Utilities is the new name for Aqua America. The water company officially made the change in February, six weeks before the completion of the acquisition of Peoples, a Pittsburgh-based natural gas utility. The cost of the transaction was \$4.275 billion in cash, including the assumption of \$1.1 billion of debt. In connection with the deal, Essential closed on the previously announced \$750 million investment from the Canadian Pension Plan, which received 21.7 million shares of newly issued stock. The equity is also trading with a new ticker: WTRG.																			
The coronavirus will most likely have only a minor impact on the company. People are going to be using water and gas no matter what the economic conditions. Should unemployment rise or a recession occurs, customers will obviously try to cut back on all of their expenditures, but the usage of these vital resources is required. Hence, demand for Essential's services will not take as large a hit as the typical corporation should this pandemic worsen. The regulatory climate in Pennsylvania will have a major impact on earnings. Nearly two-thirds of the new company's customer base is now in the Keystone state. Since Aqua had done business there for a long time, we assume that management was very aware of what the expectations are from the state's regulators. (It has promised to replace 3,000 miles of old gas lines over the next 15-year period.)																			
Our initial estimates for the new entity are tentative. Not much guidance on Essential's operating and financial outlook has been made public. The utility's rate base will be \$2.3 billion larger, but as far as the amount of the capital budget and what revenues may total, have not been discussed. As for the bottom line, much will depend on acquisition costs. Peoples is in a different business, so we don't look for much overlap, except in dealing with regulators. Moreover, since the purchase was only just approved, we won't have a good idea about quarterly earnings until after the June period, though the March interim balance sheet should provide some insight.																			
This stock is timely. However, like most members of this industry, long-term total return potential is unappealing.																			
James A Flood April 10, 2020																			
(A) Diluted eps. Excl. nonrec. gains: '12, 18c. Excl. gain from disc. ops: '12, 7c; '13, 9c; '14, 11c. Quarterly EPS do not add in '19 due to a large change in the number of shares outstanding in the Dec. period. Next earnings report due mid-May. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd reinvestment plan available (5% discount).																			
(C) In millions, adjusted for stock splits. (D) Includes intangibles: 12/31/19, \$63.8 mill./\$0.29 a share.																			
Company's Financial Strength A																			
Stock's Price Stability 95																			
Price Growth Persistence 75																			
Earnings Predictability 55																			
To subscribe call 1-800-VALUELINE																			

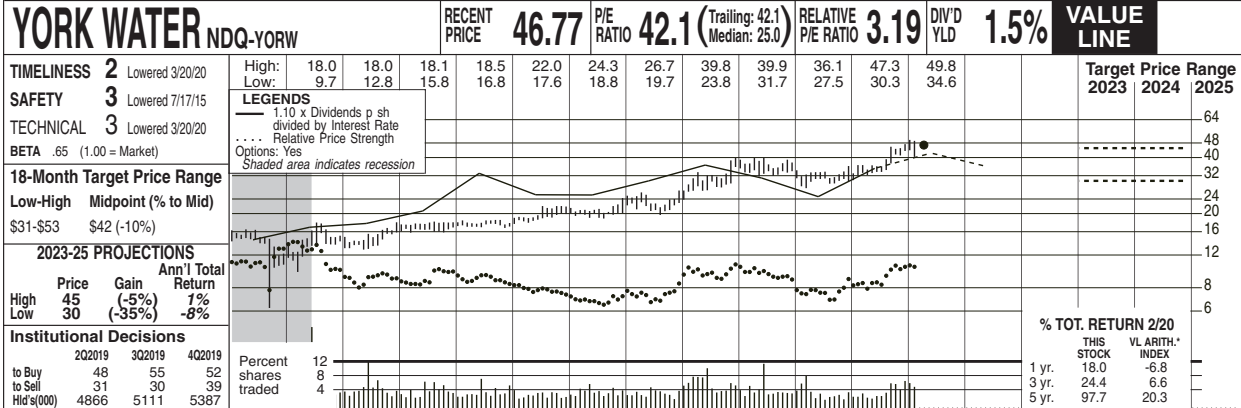
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<b>CALIFORNIA WATER</b> NYSE-CWT		RECENT PRICE	52.32	P/E RATIO	35.8 (Trailing: 39.9 Median: 23.0)	RELATIVE P/E RATIO	2.71	DIV'D YLD	1.6%	VALUE LINE																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
<b>TIMELINESS</b> 3 Lowered 3/6/20	High: 24.1 19.8 19.4 19.3 23.4 26.4 26.0 36.8 46.2 49.1 57.5 57.4	Low: 16.7 16.9 16.7 16.8 18.4 20.3 19.5 22.5 32.4 35.3 44.6 39.7	Target Price	2023	2024	2025	Range																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																													
<b>SAFETY</b> 3 Lowered 7/27/07	<b>LEGENDS</b> — 1.33 x Dividends p sh divided by Interest Rate ···· Relative Price Strength 2-for-1 split 6/11 Options: Yes Shaded area indicates recession																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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<b>BETA</b> .60 (1.00 = Market)	<b>2023-25 PROJECTIONS</b> High Price 55 (+5%) Low Price 35 (-35%) Ann'l Total Return 3% Gain (-7%)																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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LLC</th> <th>23-25</th> </tr> </thead> <tbody> <tr> <td>8.59</td> <td>8.72</td> <td>8.10</td> <td>8.88</td> <td>9.90</td> <td>10.82</td> <td>11.05</td> <td>12.00</td> <td>13.34</td> <td>12.23</td> <td>12.50</td> <td>12.29</td> <td>12.70</td> <td>13.89</td> <td>14.53</td> <td>14.72</td> <td>14.80</td> <td>15.20</td> <td>Revenues per sh</td> <td>15.00</td> </tr> <tr> <td>1.42</td> <td>1.52</td> <td>1.36</td> <td>1.56</td> <td>1.86</td> <td>1.93</td> <td>1.93</td> <td>2.07</td> <td>2.32</td> <td>2.21</td> <td>2.47</td> <td>2.22</td> <td>2.34</td> <td>3.00</td> <td>3.11</td> <td>3.14</td> <td>3.15</td> <td>3.20</td> <td>"Cash Flow" per sh</td> <td>3.50</td> </tr> <tr> <td>.73</td> <td>.74</td> <td>.67</td> <td>.75</td> <td>.95</td> <td>.98</td> <td>.91</td> <td>.86</td> <td>1.02</td> <td>1.02</td> <td>1.19</td> <td>.94</td> <td>1.01</td> <td>1.40</td> <td>1.36</td> <td>1.31</td> <td>1.55</td> <td>1.65</td> <td>Earnings per sh<sup>A</sup></td> <td>2.00</td> </tr> <tr> <td>.57</td> 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Cap'l</b> 8.0%</td> </tr> <tr> <td><b>(SMILL.)</b></td> <td colspan="10"><b>Return on Shr. Equity</b> 12.5%</td> </tr> <tr> <td>Cash Assets 94.8 47.2 42.7</td> <td colspan="10"><b>Return on Com Equity</b> 12.5%</td> </tr> <tr> <td>Other 133.1 141.5 142.0</td> <td colspan="10"><b>Related to Com Eq</b> 6.0%</td> </tr> <tr> <td>Current Assets 227.9 188.7 184.7</td> <td colspan="10"><b>Alt Div'd's to Net Prof</b> 53%</td> </tr> <tr> <td>Accts Payable 94.0 95.6 108.5</td> <td colspan="10"><b>BUSINESS:</b> California Water Service Group provides regulated and nonregulated water service to 489,600 customers in 100 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley &amp; parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '19: residential, 67%; business, 20%; industrial, 5%; public authorities, 5%; other 3%. Off. and dir. own 1% of common stock (4/19 proxy). Has 1,184 employees. Pres. and CEO: Martin A. Kropelnicki, Inc.; DE. Addr.: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.</td> </tr> <tr> <td>Debt Due 291.0 170.0 197.0</td> <td colspan="10"><b>California Water Service Group hopes to invest more than \$800 million in infrastructure-related projects over the pull to 2021.</b> At this time, its currently running general rate case with the California Public Utilities Commission was granted a settlement extension to July 1, 2020. The agreement covers various topics including, most importantly, CWT's long-term infrastructure investment plan and associated rate increases. The company already accumulated an approximate \$275 million tab last year, completing several notable upgrades, including water main replacements, new treatment facilities, the installation of backup generators, and pump station replacements. Through 2020 and 2021, it is likely that capital expenditures will range between \$550 million to \$600 million, and cover a similar scope of improvement projects. Finally, we are optimistic that regulators will eventually rule favorably.</td> </tr> <tr> <td>Other 106.0 55.6 53.2</td> <td colspan="10"><b>coronavirus,</b> which has severely impacted business and consumer activity. That said, with many residents urged to stay at home, increased hand washing and general utility use ought to translate into greater water usage. Thus, we are keeping intact our current-year revenue call, at \$740 million. On the other hand, a number of factors, namely rising operating costs, lower income tax benefits, as well as potential equity dilution, have spurred us to trim our share-net forecast from \$1.70 to \$1.55. Lastly, we are introducing our preliminary 2021 top- and bottom-line estimates of \$775 million and \$1.65 a share, respectively.</td> </tr> <tr> <td>Current Liab. 491.0 321.2 358.7</td> <td colspan="10"><b>From an investment perspective, California Water stock leaves much to be desired.</b> The shares have slipped one notch on our Timeliness Ranking scale, to 3 (Average). Moreover, total return potential over the 3- to 5-year stretch is considerably below the Value Line median. While the stock may have held up relatively well during recent broader market volatility, we think more-attractive options can be found elsewhere, at this juncture.</td> </tr> <tr> <td><b>ANNUAL RATES</b> Past 10 Yrs. Past 5 Yrs. Est'd '17-'19 of change (per sh)</td> <td colspan="10"><b>Nicholas P. Patrikis</b> April 10, 2020</td> </tr> <tr> <td>Revenues 4.0% 2.5% .5%</td> <td colspan="10"><b>Company's Financial Strength</b> B++</td> </tr> <tr> <td>"Cash Flow" 5.5% 5.5% 2.0%</td> <td colspan="10"><b>Stock Price Stability</b> 80</td> </tr> <tr> <td>Earnings 4.5% 4.5% 6.5%</td> <td colspan="10"><b>Price Growth Persistence</b> 60</td> </tr> <tr> <td>Dividends 2.5% 3.5% 5.5%</td> <td colspan="10"><b>Earnings Predictability</b> 65</td> </tr> <tr> <td>Book Value 4.5% 4.5% 1.0%</td> <td colspan="10"><b>To subscribe call 1-800-VALUELINE</b></td> </tr> <tr> <td><b>QUARTERLY REVENUES</b> (\$ mill.)<sup>F</sup></td> <td colspan="10"><b>California Water should be a consistent performer even amidst a difficult economic backdrop.</b> Notably, California has been one of the major domestic hot spots for the fast-spreading</td> </tr> <tr> <td>Cal-endar</td> <td>Mar.31</td> <td>Jun.30</td> <td>Sep.30</td> <td>Dec.31</td> <td>Full Year</td> <td colspan="5"></td> </tr> <tr> <td>2017</td> <td>122.1</td> <td>171.1</td> <td>211.7</td> <td>162.0</td> <td>666.9</td> <td colspan="5"></td> </tr> <tr> <td>2018</td> <td>134.6</td> <td>174.9</td> <td>221.3</td> <td>167.4</td> <td>698.2</td> <td colspan="5"></td> </tr> <tr> <td>2019</td> <td>126.1</td> <td>179.0</td> <td>232.6</td> <td>176.9</td> <td>714.6</td> <td colspan="5"></td> </tr> <tr> <td>2020</td> <td>140</td> <td>185</td> <td>237</td> <td>178</td> <td>740</td> <td colspan="5"></td> </tr> <tr> <td>2021</td> <td>147</td> <td>195</td> <td>248</td> <td>185</td> <td>775</td> <td colspan="5"></td> </tr> <tr> <td><b>EARNINGS PER SHARE</b> <sup>A</sup></td> <td colspan="5"></td> <td colspan="5"></td> </tr> <tr> <td>Cal-endar</td> <td>Mar.31</td> <td>Jun.30</td> <td>Sep.30</td> <td>Dec.31</td> <td>Full Year</td> <td colspan="5"></td> </tr> <tr> <td>2017</td> <td>.02</td> <td>.39</td> <td>.70</td> <td>.29</td> <td>1.40</td> <td colspan="5"></td> </tr> <tr> <td>2018</td> <td>d.02</td> <td>.31</td> <td>.75</td> <td>.32</td> <td>1.36</td> <td colspan="5"></td> </tr> <tr> <td>2019</td> <td>d.16</td> <td>.35</td> <td>.88</td> <td>.24</td> <td>1.31</td> <td colspan="5"></td> </tr> <tr> <td>2020</td> <td>.03</td> <td>.39</td> <td>.80</td> <td>.33</td> <td>1.55</td> <td colspan="5"></td> </tr> <tr> <td>2021</td> <td>.05</td> <td>.42</td> <td>.82</td> <td>.36</td> <td>1.65</td> <td colspan="5"></td> </tr> <tr> <td><b>QUARTERLY DIVIDENDS PAID</b> <sup>B</sup></td> <td colspan="5"></td> <td colspan="5"></td> </tr> <tr> <td>Cal-endar</td> <td>Mar.31</td> <td>Jun.30</td> <td>Sep.30</td> <td>Dec.31</td> <td>Full Year</td> <td colspan="5"></td> </tr> <tr> <td>2016</td> <td>.1725</td> <td>.1725</td> <td>.1725</td> <td>.1725</td> <td>.69</td> <td colspan="5"></td> </tr> <tr> <td>2017</td> <td>.18</td> <td>.18</td> <td>.18</td> <td>.18</td> <td>.72</td> <td colspan="5"></td> </tr> <tr> <td>2018</td> <td>.1875</td> <td>.1875</td> <td>.1875</td> <td>.1875</td> <td>.75</td> <td colspan="5"></td> </tr> <tr> <td>2019</td> <td>.1975</td> <td>.1975</td> <td>.1975</td> <td>.1975</td> <td>.79</td> <td colspan="5"></td> </tr> <tr> <td>2020</td> <td>.2125</td> <td></td> <td></td> <td></td> <td></td> <td colspan="5"></td> </tr> <tr> <td><b>(A)</b> Basic EPS. Excl. nonrecurring gain (loss): '11, 4c. Next earnings report due early May.</td> <td colspan="10"><b>(D)</b> In millions, adjusted for split.</td> </tr> <tr> <td><b>(B)</b> Dividends historically paid in late Feb., May, Aug., and Nov. ■ Div'd reinvestment plan</td> <td colspan="10"><b>(E)</b> Excludes non-reg. rev.</td> </tr> <tr> <td><b>(C)</b> Incl. intangible assets. In '19: \$24.9 mill., \$0.51/sh.</td> <td colspan="10"></td> </tr> </tbody> </table>										2020	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25	8.59	8.72	8.10	8.88	9.90	10.82	11.05	12.00	13.34	12.23	12.50	12.29	12.70	13.89	14.53	14.72	14.80	15.20	Revenues per sh	15.00	1.42	1.52	1.36	1.56	1.86	1.93	1.93	2.07	2.32	2.21	2.47	2.22	2.34	3.00	3.11	3.14	3.15	3.20	"Cash Flow" per sh	3.50	.73	.74	.67	.75	.95	.98	.91	.86	1.02	1.02	1.19	.94	1.01	1.40	1.36	1.31	1.55	1.65	Earnings per sh <sup>A</sup>	2.00	.57	.57	.58	.58	.59	.59	.60	.62	.63	.64	.65	.67	.69	.72	.75	.79	.82	.86	Div'd Decl'd per sh <sup>B</sup>	1.05	1.87	2.01	2.14	1.84	2.41	2.66	2.97	2.83	3.04	2.58	2.76	3.69	4.77	5.40	5.65	5.64	4.50	4.25	Cap'l Spending per sh	3.75	7.83	7.90	9.07	9.25	9.72	10.13	10.45	10.76	11.28	12.54	13.11	13.41	13.75	14.44	15.19	16.07	15.70	15.90	Book Value per sh <sup>C</sup>	16.05	36.73	36.78	41.31	41.33	41.45	41.53	41.67	41.82	41.98	47.74	47.81	47.88	47.97	48.01	48.07	48.53	50.00	51.00	Common Shs Outst'g <sup>D</sup>	53.00	20.1	24.9	29.2	26.1	19.8	19.7	20.3	21.3	17.9	20.1	19.7	24.8	29.6	26.9	30.3	39.3	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	23.0	1.06	1.33	1.58	1.39	1.19	1.31	1.29	1.34	1.14	1.13	1.04	1.25	1.55	1.35	1.64	2.13			Relative P/E Ratio	1.25	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%	3.2%	3.4%	3.5%	3.1%	2.8%	2.9%	2.3%	1.9%	1.8%	1.5%			Avg Ann'l Div'd Yield	2.3%	<b>CAPITAL STRUCTURE</b> as of 12/31/19	<table border="1"> <thead> <tr> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>460.4</td> <td>501.8</td> <td>560.0</td> <td>584.1</td> <td>597.5</td> <td>588.4</td> <td>609.4</td> <td>666.9</td> <td>698.2</td> <td>714.6</td> <td>740</td> <td>775</td> </tr> <tr> <td>37.7</td> <td>36.1</td> <td>42.6</td> <td>47.3</td> <td>56.7</td> <td>45.0</td> <td>48.7</td> <td>67.2</td> <td>65.6</td> <td>63.1</td> <td>78.0</td> <td>85.0</td> </tr> <tr> <td>39.5%</td> <td>40.5%</td> <td>37.5%</td> <td>30.3%</td> <td>33.0%</td> <td>36.0%</td> <td>35.5%</td> <td>30.1%</td> 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</table>										2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	52.4%	51.7%	47.8%	41.6%	40.1%	44.4%	44.6%	42.7%	49.3%	50.2%	49.0%	47.0%	47.6%	48.3%	52.2%	58.4%	59.9%	55.6%	55.4%	57.3%	50.7%	49.8%	51.0%	53.0%	914.7	931.5	908.2	1024.9	1045.9	1154.4	1191.2	1209.3	1440.2	1566.7	1535	1525	1294.3	1381.1	1457.1	1515.8	1590.4	1701.8	1859.3	2048.0	2232.7	2406.4	2425	2450	5.5%	5.5%	6.3%	6.0%	6.3%	5.2%	5.5%	7.1%	5.9%	5.5%	6.0%	6.5%	8.6%	8.0%	9.0%	7.9%	9.1%	7.0%	9.7%	7.0%	9.0%	8.1%	10.0%	10.5%	8.6%	8.0%	9.0%	7.9%	9.1%	7.0%	7.4%	9.7%	9.0%	8.1%	10.0%	10.5%	3.0%	2.3%	3.4%	3.4%	4.1%	2.0%	2.4%	4.7%	4.0%	3.2%	4.5%	5.0%	66%	71%	62%	56%	55%	71%	68%	51%	4.0%	3.2%	5.5%	52%	<b>LT Debt</b> \$786.8 mill. <b>LT Interest</b> \$40.0 mill.	<b>AFUDC % to Net Profit</b> 5.0%										<b>Pension Assets-12/18</b> \$573.6 mill. <b>Oblig.</b> \$812.0 mill.	<b>Long-Term Debt Ratio</b> 43.5%										<b>Pfd Stock</b> None	<b>Common Equity Ratio</b> 56.5%										<b>Common Stock</b> 48,532,000 shs.	<b>Total Capital (\$mill)</b> 1500										<b>MARKET CAP:</b> \$2.5 billion (Mid Cap)	<b>Net Plant (\$mill)</b> 2500										<b>CURRENT POSITION</b> 2017 2018 12/31/19	<b>Return on Total Cap'l</b> 8.0%										<b>(SMILL.)</b>	<b>Return on Shr. Equity</b> 12.5%										Cash Assets 94.8 47.2 42.7	<b>Return on Com Equity</b> 12.5%										Other 133.1 141.5 142.0	<b>Related to Com Eq</b> 6.0%										Current Assets 227.9 188.7 184.7	<b>Alt Div'd's to Net Prof</b> 53%										Accts Payable 94.0 95.6 108.5	<b>BUSINESS:</b> California Water Service Group provides regulated and nonregulated water service to 489,600 customers in 100 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '19: residential, 67%; business, 20%; industrial, 5%; public authorities, 5%; other 3%. Off. and dir. own 1% of common stock (4/19 proxy). Has 1,184 employees. Pres. and CEO: Martin A. Kropelnicki, Inc.; DE. Addr.: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.										Debt Due 291.0 170.0 197.0	<b>California Water Service Group hopes to invest more than \$800 million in infrastructure-related projects over the pull to 2021.</b> At this time, its currently running general rate case with the California Public Utilities Commission was granted a settlement extension to July 1, 2020. The agreement covers various topics including, most importantly, CWT's long-term infrastructure investment plan and associated rate increases. The company already accumulated an approximate \$275 million tab last year, completing several notable upgrades, including water main replacements, new treatment facilities, the installation of backup generators, and pump station replacements. Through 2020 and 2021, it is likely that capital expenditures will range between \$550 million to \$600 million, and cover a similar scope of improvement projects. Finally, we are optimistic that regulators will eventually rule favorably.										Other 106.0 55.6 53.2	<b>coronavirus,</b> which has severely impacted business and consumer activity. That said, with many residents urged to stay at home, increased hand washing and general utility use ought to translate into greater water usage. Thus, we are keeping intact our current-year revenue call, at \$740 million. On the other hand, a number of factors, namely rising operating costs, lower income tax benefits, as well as potential equity dilution, have spurred us to trim our share-net forecast from \$1.70 to \$1.55. Lastly, we are introducing our preliminary 2021 top- and bottom-line estimates of \$775 million and \$1.65 a share, respectively.										Current Liab. 491.0 321.2 358.7	<b>From an investment perspective, California Water stock leaves much to be desired.</b> The shares have slipped one notch on our Timeliness Ranking scale, to 3 (Average). Moreover, total return potential over the 3- to 5-year stretch is considerably below the Value Line median. While the stock may have held up relatively well during recent broader market volatility, we think more-attractive options can be found elsewhere, at this juncture.										<b>ANNUAL RATES</b> Past 10 Yrs. Past 5 Yrs. Est'd '17-'19 of change (per sh)	<b>Nicholas P. Patrikis</b> April 10, 2020										Revenues 4.0% 2.5% .5%	<b>Company's Financial Strength</b> B++										"Cash Flow" 5.5% 5.5% 2.0%	<b>Stock Price Stability</b> 80										Earnings 4.5% 4.5% 6.5%	<b>Price Growth Persistence</b> 60										Dividends 2.5% 3.5% 5.5%	<b>Earnings Predictability</b> 65										Book Value 4.5% 4.5% 1.0%	<b>To subscribe call 1-800-VALUELINE</b>										<b>QUARTERLY REVENUES</b> (\$ mill.) <sup>F</sup>	<b>California Water should be a consistent performer even amidst a difficult economic backdrop.</b> Notably, California has been one of the major domestic hot spots for the fast-spreading										Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year						2017	122.1	171.1	211.7	162.0	666.9						2018	134.6	174.9	221.3	167.4	698.2						2019	126.1	179.0	232.6	176.9	714.6						2020	140	185	237	178	740						2021	147	195	248	185	775						<b>EARNINGS PER SHARE</b> <sup>A</sup>											Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year						2017	.02	.39	.70	.29	1.40						2018	d.02	.31	.75	.32	1.36						2019	d.16	.35	.88	.24	1.31						2020	.03	.39	.80	.33	1.55						2021	.05	.42	.82	.36	1.65						<b>QUARTERLY DIVIDENDS PAID</b> <sup>B</sup>											Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year						2016	.1725	.1725	.1725	.1725	.69						2017	.18	.18	.18	.18	.72						2018	.1875	.1875	.1875	.1875	.75						2019	.1975	.1975	.1975	.1975	.79						2020	.2125										<b>(A)</b> Basic EPS. Excl. nonrecurring gain (loss): '11, 4c. Next earnings report due early May.	<b>(D)</b> In millions, adjusted for split.										<b>(B)</b> Dividends historically paid in late Feb., May, Aug., and Nov. ■ Div'd reinvestment plan	<b>(E)</b> Excludes non-reg. rev.										<b>(C)</b> Incl. intangible assets. In '19: \$24.9 mill., \$0.51/sh.										
2020	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																	
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<b>CAPITAL STRUCTURE</b> as of 12/31/19	<table border="1"> <thead> <tr> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>460.4</td> <td>501.8</td> <td>560.0</td> <td>584.1</td> <td>597.5</td> <td>588.4</td> <td>609.4</td> <td>666.9</td> <td>698.2</td> <td>714.6</td> <td>740</td> <td>775</td> </tr> <tr> <td>37.7</td> <td>36.1</td> <td>42.6</td> <td>47.3</td> <td>56.7</td> <td>45.0</td> <td>48.7</td> <td>67.2</td> <td>65.6</td> <td>63.1</td> <td>78.0</td> <td>85.0</td> </tr> <tr> <td>39.5%</td> <td>40.5%</td> <td>37.5%</td> <td>30.3%</td> <td>33.0%</td> <td>36.0%</td> <td>35.5%</td> <td>30.1%</td> <td>24.5%</td> <td>19.1%</td> <td>21.0%</td> <td>21.0%</td> </tr> <tr> <td>4.2%</td> <td>7.6%</td> <td>8.0%</td> <td>4.3%</td> <td>2.7%</td> <td>4.3%</td> <td>6.1%</td> <td>3.5%</td> <td>3.1%</td> <td>5.8%</td> <td>5.0%</td> <td>5.0%</td> </tr> </tbody> </table>										2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	460.4	501.8	560.0	584.1	597.5	588.4	609.4	666.9	698.2	714.6	740	775	37.7	36.1	42.6	47.3	56.7	45.0	48.7	67.2	65.6	63.1	78.0	85.0	39.5%	40.5%	37.5%	30.3%	33.0%	36.0%	35.5%	30.1%	24.5%	19.1%	21.0%	21.0%	4.2%	7.6%	8.0%	4.3%	2.7%	4.3%	6.1%	3.5%	3.1%	5.8%	5.0%	5.0%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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<b>Total Debt</b> \$983.8 mill. <b>Due in 5 Yrs</b> \$229.0 mill.	<table border="1"> <thead> <tr> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> <th>2017</th> <th>2018</th> <th>2019</th> <th>2020</th> <th>2021</th> </tr> </thead> <tbody> <tr> <td>52.4%</td> <td>51.7%</td> <td>47.8%</td> <td>41.6%</td> <td>40.1%</td> <td>44.4%</td> <td>44.6%</td> <td>42.7%</td> <td>49.3%</td> <td>50.2%</td> <td>49.0%</td> <td>47.0%</td> </tr> <tr> <td>47.6%</td> <td>48.3%</td> <td>52.2%</td> <td>58.4%</td> <td>59.9%</td> <td>55.6%</td> <td>55.4%</td> <td>57.3%</td> <td>50.7%</td> <td>49.8%</td> <td>51.0%</td> <td>53.0%</td> </tr> <tr> <td>914.7</td> <td>931.5</td> <td>908.2</td> <td>1024.9</td> <td>1045.9</td> <td>1154.4</td> <td>1191.2</td> <td>1209.3</td> <td>1440.2</td> <td>1566.7</td> <td>1535</td> <td>1525</td> </tr> <tr> <td>1294.3</td> <td>1381.1</td> <td>1457.1</td> <td>1515.8</td> <td>1590.4</td> <td>1701.8</td> <td>1859.3</td> <td>2048.0</td> <td>2232.7</td> <td>2406.4</td> <td>2425</td> <td>2450</td> </tr> <tr> <td>5.5%</td> <td>5.5%</td> <td>6.3%</td> <td>6.0%</td> <td>6.3%</td> <td>5.2%</td> <td>5.5%</td> <td>7.1%</td> <td>5.9%</td> <td>5.5%</td> <td>6.0%</td> <td>6.5%</td> </tr> <tr> <td>8.6%</td> <td>8.0%</td> <td>9.0%</td> <td>7.9%</td> <td>9.1%</td> <td>7.0%</td> <td>9.7%</td> <td>7.0%</td> <td>9.0%</td> <td>8.1%</td> <td>10.0%</td> <td>10.5%</td> </tr> <tr> <td>8.6%</td> <td>8.0%</td> <td>9.0%</td> <td>7.9%</td> <td>9.1%</td> <td>7.0%</td> <td>7.4%</td> <td>9.7%</td> <td>9.0%</td> <td>8.1%</td> <td>10.0%</td> <td>10.5%</td> </tr> <tr> <td>3.0%</td> <td>2.3%</td> <td>3.4%</td> <td>3.4%</td> <td>4.1%</td> <td>2.0%</td> <td>2.4%</td> <td>4.7%</td> <td>4.0%</td> <td>3.2%</td> <td>4.5%</td> <td>5.0%</td> </tr> <tr> <td>66%</td> <td>71%</td> <td>62%</td> <td>56%</td> <td>55%</td> <td>71%</td> <td>68%</td> <td>51%</td> <td>4.0%</td> <td>3.2%</td> <td>5.5%</td> <td>52%</td> </tr> </tbody> </table>										2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	52.4%	51.7%	47.8%	41.6%	40.1%	44.4%	44.6%	42.7%	49.3%	50.2%	49.0%	47.0%	47.6%	48.3%	52.2%	58.4%	59.9%	55.6%	55.4%	57.3%	50.7%	49.8%	51.0%	53.0%	914.7	931.5	908.2	1024.9	1045.9	1154.4	1191.2	1209.3	1440.2	1566.7	1535	1525	1294.3	1381.1	1457.1	1515.8	1590.4	1701.8	1859.3	2048.0	2232.7	2406.4	2425	2450	5.5%	5.5%	6.3%	6.0%	6.3%	5.2%	5.5%	7.1%	5.9%	5.5%	6.0%	6.5%	8.6%	8.0%	9.0%	7.9%	9.1%	7.0%	9.7%	7.0%	9.0%	8.1%	10.0%	10.5%	8.6%	8.0%	9.0%	7.9%	9.1%	7.0%	7.4%	9.7%	9.0%	8.1%	10.0%	10.5%	3.0%	2.3%	3.4%	3.4%	4.1%	2.0%	2.4%	4.7%	4.0%	3.2%	4.5%	5.0%	66%	71%	62%	56%	55%	71%	68%	51%	4.0%	3.2%	5.5%	52%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
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<b>Pension Assets-12/18</b> \$573.6 mill. <b>Oblig.</b> \$812.0 mill.	<b>Long-Term Debt Ratio</b> 43.5%																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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Accts Payable 94.0 95.6 108.5	<b>BUSINESS:</b> California Water Service Group provides regulated and nonregulated water service to 489,600 customers in 100 communities in the state of California. Accounts for over 94% of total customers. Also operates in Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '19: residential, 67%; business, 20%; industrial, 5%; public authorities, 5%; other 3%. Off. and dir. own 1% of common stock (4/19 proxy). Has 1,184 employees. Pres. and CEO: Martin A. Kropelnicki, Inc.; DE. Addr.: 1720 North First St., San Jose, CA 95112-4598. Tel.: 408-367-8200. Internet: www.calwatergroup.com.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
Debt Due 291.0 170.0 197.0	<b>California Water Service Group hopes to invest more than \$800 million in infrastructure-related projects over the pull to 2021.</b> At this time, its currently running general rate case with the California Public Utilities Commission was granted a settlement extension to July 1, 2020. The agreement covers various topics including, most importantly, CWT's long-term infrastructure investment plan and associated rate increases. The company already accumulated an approximate \$275 million tab last year, completing several notable upgrades, including water main replacements, new treatment facilities, the installation of backup generators, and pump station replacements. Through 2020 and 2021, it is likely that capital expenditures will range between \$550 million to \$600 million, and cover a similar scope of improvement projects. Finally, we are optimistic that regulators will eventually rule favorably.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
Other 106.0 55.6 53.2	<b>coronavirus,</b> which has severely impacted business and consumer activity. That said, with many residents urged to stay at home, increased hand washing and general utility use ought to translate into greater water usage. Thus, we are keeping intact our current-year revenue call, at \$740 million. On the other hand, a number of factors, namely rising operating costs, lower income tax benefits, as well as potential equity dilution, have spurred us to trim our share-net forecast from \$1.70 to \$1.55. Lastly, we are introducing our preliminary 2021 top- and bottom-line estimates of \$775 million and \$1.65 a share, respectively.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
Current Liab. 491.0 321.2 358.7	<b>From an investment perspective, California Water stock leaves much to be desired.</b> The shares have slipped one notch on our Timeliness Ranking scale, to 3 (Average). Moreover, total return potential over the 3- to 5-year stretch is considerably below the Value Line median. While the stock may have held up relatively well during recent broader market volatility, we think more-attractive options can be found elsewhere, at this juncture.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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<b>QUARTERLY REVENUES</b> (\$ mill.) <sup>F</sup>	<b>California Water should be a consistent performer even amidst a difficult economic backdrop.</b> Notably, California has been one of the major domestic hot spots for the fast-spreading																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
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2018	134.6	174.9	221.3	167.4	698.2																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
2019	126.1	179.0	232.6	176.9	714.6																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
2020	140	185	237	178	740																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
2021	147	195	248	185	775																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																															
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<b>(A)</b> Basic EPS. Excl. nonrecurring gain (loss): '11, 4c. Next earnings report due early May.	<b>(D)</b> In millions, adjusted for split.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
<b>(B)</b> Dividends historically paid in late Feb., May, Aug., and Nov. ■ Div'd reinvestment plan	<b>(E)</b> Excludes non-reg. rev.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																			
<b>(C)</b> Incl. intangible assets. In '19: \$24.9 mill., \$0.51/sh.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																				

MIDDLESEX WATER NDQ-MSEX										RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	VALUE LINE				
										61.47	29.4 (Trailing: 30.6 Median: 21.0)		2.23	1.7%					
TIMELINESS	3	Lowered 5/24/19	High: 17.9	19.3	19.4	19.6	22.5	23.7	28.0	44.5	46.7	60.3	67.7	69.9		Target Price	Range		
SAFETY	2	New 10/21/11	Low: 11.6	14.7	16.5	17.5	18.6	19.1	21.2	25.0	32.2	34.0	51.0	48.8		2023	2024	2025	
TECHNICAL	3	Lowered 2/7/20	<b>LEGENDS</b> — 1.20 x Dividends p sh divided by Interest Rate ..... Relative Price Strength Options: Yes Shaded area indicates recession																
BETA	.70	(1.00 = Market)	<b>18-Month Target Price Range</b> Low-High Midpoint (% to Mid) \$57-\$94 \$76 (25%)																
<b>2023-25 PROJECTIONS</b> High Price Gain Ann'l Total Return Low 60 (NI) 2% 2% 45 (-25%) -5%																			
<b>Institutional Decisions</b> 202019 3Q2019 4Q2019 Percent shares traded to Buy 79 56 68 12 to Sell 58 67 68 8 Hld's(000) 9432 9915 10433 4																			
<b>% TOT. RETURN 2/20</b> THIS STOCK VL ARITH. INDEX 1 yr. 2.3 -6.8 3 yr. 66.8 6.6 5 yr. 185.1 20.3																			
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
6.25	6.44	6.16	6.50	6.79	6.75	6.60	6.50	6.98	7.19	7.26	7.77	8.16	8.00	8.42	7.72	8.20	8.45	Revenues per sh	9.15
1.28	1.33	1.33	1.49	1.53	1.40	1.55	1.46	1.56	1.72	1.84	1.97	2.17	2.24	2.89	2.90	2.95	3.10	"Cash Flow" per sh	3.50
.73	.71	.82	.87	.89	.72	.96	.84	.90	1.03	1.13	1.22	1.38	1.38	1.96	2.01	2.10	2.20	Earnings per sh <sup>A</sup>	2.50
.66	.67	.68	.69	.70	.71	.72	.73	.74	.75	.76	.78	.81	.86	.91	.98	1.04	1.10	Div'd Decl'd per sh <sup>B</sup>	1.25
2.54	2.18	2.31	1.66	2.12	1.49	1.90	1.50	1.36	1.26	1.40	1.59	2.91	3.08	4.40	5.11	3.50	3.50	Cap'l Spending per sh	3.50
8.02	8.26	9.52	10.05	10.03	10.33	11.13	11.27	11.48	11.82	12.24	12.74	13.40	14.02	15.17	18.57	16.15	16.50	Book Value per sh	17.35
11.36	11.58	13.17	13.25	13.40	13.52	15.57	15.70	15.82	15.96	16.12	16.23	16.30	16.35	16.40	17.43	17.65	17.75	Common Shs Outst'g <sup>C</sup>	18.00
26.4	27.4	22.7	21.6	19.8	21.0	17.8	21.7	20.8	19.7	18.5	19.1	25.6	28.4	22.2	29.7	22.2	29.7	Avg Ann'l P/E Ratio	21.0
1.39	1.46	1.23	1.15	1.19	1.40	1.13	1.36	1.32	1.11	.97	.96	1.34	1.43	1.20	1.61	1.20	1.61	Relative P/E Ratio	1.15
3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	4.0%	4.0%	3.7%	3.7%	3.3%	2.3%	2.2%	2.1%	1.6%	2.1%	1.6%	Avg Ann'l Div'd Yield	2.4%
<b>CAPITAL STRUCTURE as of 12/31/19</b> Total Debt \$258.0 mill. Due in 5 Yrs \$33.3 mill. LT Debt \$230.8 mill. LT Interest \$7.2 mill. (Total interest coverage: 7.3x) (42% of Cap'l)																			
<b>Pension Assets-12/18</b> \$80.4 mill. <b>Oblig.</b> \$100.9 mill. <b>Pfd Stock</b> \$2.4 mill. <b>Pfd Div'd:</b> \$.1 mill.																			
<b>Common Stock</b> 17,434,000 shs.																			
<b>MARKET CAP: \$1.1 billion (Mid-Cap)</b>																			
<b>CURRENT POSITION (MILL.)</b> Cash Assets 4.9 3.7 2.2 Other 24.3 27.1 26.9 Current Assets 29.2 30.8 29.1 Accts Payable 13.9 19.3 23.3 Debt Due 34.9 55.8 27.2 Other 15.7 19.3 14.5 Current Liab. 64.5 94.4 65.0																			
<b>ANNUAL RATES Past 10 Yrs. Past 5 Yrs. Est'd '17-'19 to '23-'25</b> Revenues 2.0% 2.5% 2.0% "Cash Flow" 6.0% 9.5% 4.5% Earnings 8.0% 12.0% 6.0% Dividends 2.5% 4.0% 5.5% Book Value 4.5% 6.0% 7.5%																			
<b>BUSINESS:</b> Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey, Delaware, and Pennsylvania. It also operates water and wastewater systems under contract on behalf of municipal and private clients in NJ and DE. Its Middlesex System provides water services to 61,000 retail customers, primarily in Middlesex County, New Jersey. In 2019, the Middlesex System accounted for 60% of operating revenues. At 12/31/19, the company had 352 employees. Incorporated: NJ. President, CEO, and Chairman: Dennis W. Doll. Officers & directors own 3.5% of the com. stock: BlackRock Inst. Trust Co., 6.8% (4/19 proxy). Add.: 485 C Route 1 South, Suite 400, Iselin, NJ 08830. Tel.: 732-634-1500. Int.: www.middlesexwater.com.																			
<b>Middlesex Water Company is well positioned to handle the currently ambiguous economic climate.</b> Indeed, impacts from the sweeping coronavirus are still largely unknown, but will likely take a major toll on consumer spending and domestic business activity in the near term. However, taking into consideration that water is one of our most basic necessities, it is highly unlikely that service will undergo even the slightest pause or consumer disruption. Additionally, health-conscious actions, such as more frequent hand washing, as well as a greater number of residents presently staying in their homes, may well drive increased water usage. Meanwhile, the company recently raised some capital via an equity issuance, which should provide financial flexibility. <b>The stock has held up decently since our last report.</b> Middlesex shares etched fresh highs in mid-February before crumbling market indices resulted in the capitulation of some gains. On balance, the stock is down only about 10% in value over the past three months. <b>We are introducing our preliminary 2021 top- and bottom-line forecasts at \$150 million and \$2.20 a share, respectively.</b> This represents modest single-digit growth over our current-year projections. <b>Infrastructure spending is likely to ramp up considerably over the pull to mid-decade.</b> To start, an \$11.2 million drinking water project is already under way in New Jersey. The company plans to replace more than 20,000 linear feet of water mains, as well as upgrade service lines. Moreover, through 2021, MSEX's Water for Tomorrow program sports a budget of nearly \$300 million, which ought to strengthen the company's distribution infrastructure. Beyond that, we think additional investment spending is probably in the cards. <b>We are not presently recommending Middlesex stock.</b> The water utility might be a conservative option amidst volatile market conditions, but the issue is just an Average selection for the year ahead. On top of that, the yield is rather unenticing, and capital appreciation potential three to five years hence is well below the Value Line median. Thus, we suggest investors take a pass, for now.																			
Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year														
	Mar.31	Jun.30	Sep.30	Dec.31															
2017	30.1	33.0	36.2	31.5	130.8														
2018	31.2	34.9	38.7	33.3	138.1														
2019	30.7	33.4	37.8	32.7	134.6														
2020	32.0	36.0	42.0	35.0	145														
2021	33.0	37.0	44.0	36.0	150														
Cal-endar	EARNINGS PER SHARE <sup>A</sup>				Full Year														
	Mar.31	Jun.30	Sep.30	Dec.31															
2017	.27	.33	.46	.32	1.38														
2018	.27	.52	.74	.43	1.96														
2019	.39	.49	.66	.46	2.01														
2020	.40	.53	.70	.47	2.10														
2021	.42	.55	.73	.50	2.20														
Cal-endar	QUARTERLY DIVIDENDS PAID <sup>B</sup>				Full Year														
	Mar.31	Jun.30	Sep.30	Dec.31															
2016	.19875	.19875	.19875	.21125	.81														
2017	.21125	.21125	.21125	.22375	.86														
2018	.22375	.22375	.22375	.24	.91														
2019	.24	.24	.24	.2562	.98														
2020	.2562																		
<b>(A)</b> Diluted earnings. Next earnings report due late April. <b>(B)</b> Dividends historically paid in mid-Feb., May, Aug., and November. <sup>D</sup> Div'd reinvestment plan available. <b>(C)</b> In millions.																			
<b>Company's Financial Strength</b> B++ <b>Stock's Price Stability</b> 65 <b>Price Growth Persistence</b> 55 <b>Earnings Predictability</b> 75																			
<b>To subscribe call 1-800-VALUELINE</b>																			

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SJW GROUP NYSE-SJW			RECENT PRICE	59.78	P/E RATIO	28.6 (Trailing: 44.3 Median: 21.0)	RELATIVE P/E RATIO	2.17	DIV'D YLD	2.1%	VALUE LINE												
TIMELINESS	— E	High: 30.4	28.2	26.8	26.9	30.1	33.7	35.7	56.9	69.3	68.4	74.5	75.0	75.0	Target Price	Range	2025						
SAFETY	3 New 4/22/11	Low: 18.2	21.6	20.9	22.6	24.5	25.5	27.5	28.6	45.4	51.3	53.9	45.6		2023	2024	2025						
TECHNICAL	— E	<b>LEGENDS</b> — 1.50 x Dividends p sh divided by Interest Rate ····· Relative Price Strength Options: Yes Shaded area indicates recession																					
BETA	.60 (1.00 = Market)																						
<b>18-Month Target Price Range</b>																							
Low-High	Midpoint (% to Mid)																						
\$52-\$85	\$69 (15%)																						
<b>2023-25 PROJECTIONS</b>																							
High	Price	Ann'l Total																					
Low	95	Gain																					
	65	(+60%)																					
	14%	4%																					
<b>Institutional Decisions</b>																							
202019			3Q2019	4Q2019																			
to Buy	91	94	93																				
to Sell	62	69	76																				
Hld's(000)	19526	19354	19650																				
			Percent	15																			
			shares	10																			
			traded	5																			
			% TOT. RETURN 2/20 THIS STOCK VL ARITH. 1 yr. 1.4 -6.8 3 yr. 32.5 6.6 5 yr. 102.4 20.3																				
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25				
9.14	9.86	10.35	11.25	12.12	11.68	11.82	12.85	14.01	13.73	15.76	14.97	16.61	18.97	14.00	14.78	<b>18.80</b>	<b>19.85</b>	Revenues per sh	21.65				
1.89	2.21	2.38	2.30	2.44	2.21	2.38	2.80	2.97	2.90	4.42	3.86	4.76	5.24	3.29	3.11	<b>4.10</b>	<b>4.40</b>	"Cash Flow" per sh	5.30				
.87	1.12	1.19	1.04	1.08	.81	.84	1.11	1.18	1.12	2.54	1.85	2.57	2.86	1.82	1.35	<b>2.35</b>	<b>2.70</b>	Earnings per sh <sup>A</sup>	3.65				
.51	.53	.57	.61	.65	.66	.68	.69	.71	.73	.75	.78	.81	1.04	1.12	1.20	<b>1.28</b>	<b>1.36</b>	Div'd Decl'd per sh <sup>B</sup>	1.58				
2.31	2.83	3.87	6.62	3.79	3.17	5.65	3.75	5.67	4.68	5.02	5.24	6.95	7.26	5.08	<b>5.00</b>	<b>5.25</b>	Cap'l Spending per sh	5.50					
10.11	10.72	12.48	12.90	13.99	13.66	13.75	14.20	14.71	15.92	17.75	18.83	20.61	22.57	31.31	31.27	<b>33.30</b>	<b>35.60</b>	Book Value per sh	39.15				
18.27	18.27	18.28	18.36	18.18	18.50	18.55	18.59	18.67	20.17	20.29	20.38	20.46	20.52	28.40	28.46	<b>29.00</b>	<b>29.50</b>	Common Shs Outst'g <sup>C</sup>	30.00				
19.6	19.7	23.5	33.4	26.2	28.7	29.1	21.2	20.4	24.3	11.2	16.6	15.7	18.8	32.7	47.8	<i>Bold figures are Value Line estimates</i>		Avg Ann'l P/E Ratio	22.0				
1.04	1.05	1.27	1.77	1.58	1.91	1.85	1.33	1.30	1.37	.59	.84	.82	.95	1.77	2.60			Relative P/E Ratio	1.20				
3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%	2.9%	3.0%	2.7%	2.6%	2.5%	2.0%	1.9%	1.9%	1.9%			Avg Ann'l Div'd Yield	2.0%				
<b>CAPITAL STRUCTURE as of 12/31/19</b>						215.6	239.0	261.5	276.9	319.7	305.1	339.7	389.2	397.7	420.5	<b>545</b>	<b>585</b>	Revenues (\$mill)	650				
Total Debt \$1305.9 mill. Due in 5 Yrs \$0 mill.						15.8	20.9	22.3	23.5	51.8	37.9	52.8	59.2	38.8	38.5	<b>68.0</b>	<b>80.0</b>	Net Profit (\$mill)	110				
LT Debt \$1283.6 mill. LT Interest \$35.0 mill.						38.8%	41.1%	41.1%	38.7%	32.5%	38.1%	38.8%	36.7%	20.6%	<b>21.0%</b>	<b>21.0%</b>	<b>21.0%</b>	Income Tax Rate	21.0%				
(LT Interest Coverage: 3.8x)						--	--	--	--	--	--	--	--	2.0%	<b>1.5%</b>	<b>1.5%</b>	AFUDC % to Net Profit	1.5%					
(59% of Cap'l)						53.7%	56.6%	55.0%	51.1%	51.6%	49.8%	50.7%	48.2%	32.7%	59.0%	<b>51.0%</b>	<b>41.5%</b>	Long-Term Debt Ratio	35.5%				
						46.3%	43.4%	45.0%	48.9%	48.4%	50.2%	49.3%	51.8%	67.3%	41.0%	<b>49.0%</b>	<b>58.5%</b>	Common Equity Ratio	64.5%				
						550.7	607.9	610.2	656.2	744.5	764.6	855.0	894.3	1320.7	2173.0	<b>1465</b>	<b>1800</b>	Total Capital (\$mill)	1825				
						785.5	756.2	831.6	898.7	963.0	1036.8	1146.4	1239.3	1328.8	2206.5	<b>2300</b>	<b>2450</b>	Net Plant (\$mill)	2775				
Pension Assets-12/19 \$243.5 mill.						4.3%	4.9%	5.0%	5.0%	8.3%	6.3%	7.4%	7.9%	3.9%	2.3%	<b>4.5%</b>	<b>5.0%</b>	Return on Total Cap'l	6.5%				
Oblig. \$338.2 mill.						6.2%	7.9%	8.1%	7.3%	14.4%	9.9%	12.5%	12.8%	4.4%	4.3%	<b>7.5%</b>	<b>7.5%</b>	Return on Shr. Equity	9.5%				
Pfd Stock None.						6.2%	7.9%	8.1%	7.3%	14.4%	9.9%	12.5%	12.8%	4.4%	4.3%	<b>7.5%</b>	<b>7.5%</b>	Return on Com Equity	9.5%				
Common Stock 28,456,508 shs.						1.2%	3.1%	3.3%	2.8%	10.2%	5.7%	8.6%	8.2%	1.8%	.5%	<b>3.5%</b>	<b>4.0%</b>	Retained to Com Eq	5.5%				
MARKET CAP: \$1.7 billion (Mid Cap)						80%	61%	59%	62%	29%	42%	31%	36%	60%	89%	<b>52%</b>	<b>50%</b>	All Div'ds to Net Prof	43%				
<b>CURRENT POSITION</b>																							
2017						2018	12/31/19																
(SMILL.)																							
Cash Assets						7.8	420.7	17.9															
Accts Receivable						17.3	19.2	36.3															
Other						41.8	62.8	67.8															
Current Assets						66.9	502.7	122.0															
Accts Payable						23.0	24.9	34.9															
Debt Due						--	--	22.3															
Other						62.1	139.1	177.4															
Current Liab.						85.1	164.0	234.6															
<b>ANNUAL RATES</b>						Past	Past	Est'd															
of change (per sh)						10 Yrs.	5 Yrs.	'16-'18															
Revenues						5.0%	5.5%	4.0%															
"Cash Flow"						7.0%	11.0%	2.5%															
Earnings						8.0%	18.5%	6.0%															
Dividends						4.5%	5.0%	7.0%															
Book Value						5.5%	8.0%	6.5%															
<b>QUARTERLY REVENUES (\$ mill.)</b>																							
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																		
2017	69.0	102.1	124.6	93.5	389.2																		
2018	75.0	99.1	124.9	98.7	397.7																		
2019	77.7	103.0	114.0	126.0	420.5																		
2020	<b>105</b>	<b>135</b>	<b>170</b>	<b>135</b>	<b>545</b>																		
2021	<b>115</b>	<b>145</b>	<b>180</b>	<b>145</b>	<b>585</b>																		
<b>EARNINGS PER SHARE<sup>A</sup></b>																							
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																		
2017	.18	.90	.94	.84	2.86																		
2018	.06	.62	.76	.38	1.82																		
2019	.21	.47	.33	.34	1.35																		
2020	<b>.20</b>	<b>.65</b>	<b>.90</b>	<b>.60</b>	<b>2.35</b>																		
2021	<b>.30</b>	<b>.70</b>	<b>1.00</b>	<b>.70</b>	<b>2.70</b>																		
<b>QUARTERLY DIVIDENDS PAID<sup>B,D</sup></b>																							
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																		
2016	.2025	.2025	.2025	.2025	.81																		
2017	.2175	.2175	.2175	.3875	1.04																		
2018	.28	.28	.28	.28	1.12																		
2019	.30	.30	.30	.30	1.20																		
2020	.32																						
<b>BUSINESS:</b> SJW Group engages in the production, purchase, storage, purification, distribution, and retail sale of water. It provides water service to approximately 231,000 connections with a total population of roughly one million people in the San Jose area and 16,000 connections that reach about 49,000 residents in the region between San Antonio and Austin, Texas. The company merged with Connecticut Water (10/19) which provides service to approx. 138,000 connections with a total population of 450,000 people. Has 361 employees. Officers and directors own 8.3% of outstanding shares (3/20 proxy). Chairman & CEO: Richard Roth, Incorporated. California. Address: 110 West Taylor Street, San Jose, CA 95110. Telephone: (408) 279-7800. Internet: www.sjwater.com.																							
<b>We are lowering our current-year share-net estimate for SJW Group by a dime, to \$2.35.</b> This is largely to reflect management's recent guidance, as well as to factor in lingering integration costs from the CTWS merger (completed in October, 2019). Indeed, we look for a substantial bottom-line recovery this year, as SJW incurred an additional profit hit in 2019 in the form of a nonrecurring charge related to the denial of its subsidiary's Water Conservation Memorandum Account. Although the near-term economic outlook, especially in hard-hit California, is a bit dire, given recent health concerns, we think SJW is well positioned to operate on a fairly normal basis. In fact, a rise in household water consumption, due to increased hand washing and more people staying at home of late, may be a net positive for the company.																							
<b>Long-term, we like SJW Group's business prospects.</b> First, the recently combined company now serves more than 1.5 million people on both coasts, and the scale and scope of its operations, once the integration is in the rearview mirror, ought to support further growth. In addition, an expanding customer base and periodic rate hikes should help drive top-line results. Second, we think aggressive infrastructure investment spending is likely over the next several years. Alongside traditional upgrades, such as water main repairs and improvements to its filtration systems and treatment plants, SJW aims to roll out advanced metering technology (in an effort to achieve upcoming water standards) that can provide nearly real-time water consumption information.																							
<b>The stock price has declined notably since our previous review.</b> Over the past three months, SJW stock has lost about 20% in value, largely a consequence of broader market turbulence stemming from weakening economic concerns. Over the past five years, shares of SJW have appreciated handsomely and, even with the recent selloff, total return potential three to five years out is still subpar when compared to the Value Line median.																							
<b>Adding it all up, given the equity's limited investment appeal, subscribers would be wise to look elsewhere at this juncture.</b>																							
Nicholas P. Patrikis April 10, 2020																							
(A) Diluted earnings. Excludes nonrecurring losses: '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, \$0.46. GAAP accounting as of 2013. Next earnings report due early May.	Quarterly egs. may not add due to rounding.				(C) In millions, adjusted for stock splits.				Company's Financial Strength				B+										
(B) Dividends historically paid in early March, June, September, and December. Div'd reinvestment plan available.				(D) Paid special dividend of \$0.17 per share on 11/17.				Stock's Price Stability				70											
				(E) Suspended due to recent CTWS merger.				Price Growth Persistence				55											
								Earnings Predictability				45											
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2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
2.18	2.58	2.56	2.79	2.89	2.95	3.07	3.18	3.21	3.27	3.58	3.68	3.70	3.77	3.74	3.96	4.05	4.20	Revenues per sh	5.10
.65	.79	.77	.86	.88	.95	1.07	1.09	1.12	1.19	1.36	1.45	1.42	1.53	1.58	1.71	1.80	1.80	"Cash Flow" per sh	2.40
.49	.56	.58	.57	.57	.64	.71	.71	.72	.75	.89	.97	.92	1.01	1.04	1.11	1.15	1.20	Earnings per sh <sup>A</sup>	1.60
.39	.42	.45	.48	.49	.51	.52	.53	.54	.55	.57	.60	.63	1.05	.67	.70	.73	.78	Div'd Decl'd per sh <sup>B</sup>	.95
2.50	1.69	1.85	1.69	2.17	1.18	.83	.74	.94	.76	1.10	1.11	1.03	1.95	1.95	2.00	2.00	1.95	Cap'l Spending per sh	1.85
4.65	4.85	5.84	5.97	6.14	6.92	7.19	7.45	7.73	7.98	8.15	8.51	8.88	9.28	9.75	10.32	11.20	11.65	Book Value per sh	12.50
10.33	10.40	11.20	11.27	11.37	12.56	12.69	12.79	12.92	12.98	12.83	12.81	12.85	12.87	12.94	13.01	12.95	12.90	Common Shs Outst'g <sup>C</sup>	12.80
25.7	26.3	31.2	30.3	24.6	21.9	20.7	23.9	24.4	26.3	23.1	23.5	32.8	34.6	30.3	33.7	30.3	33.7	Avg Ann'l P/E Ratio	22.5
1.36	1.40	1.68	1.61	1.48	1.46	1.32	1.50	1.55	1.48	1.22	1.18	1.72	1.74	1.64	1.83	1.64	1.83	Relative P/E Ratio	1.25
3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	3.1%	3.1%	2.8%	2.8%	2.6%	2.1%	1.9%	2.1%	1.9%	2.1%	1.9%	Avg Ann'l Div'd Yield	2.5%

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
39.0	40.6	41.4	42.4	45.9	47.1	47.6	48.6	48.4	51.5	52.5	54.0	Revenues (\$mill)	65.0						
8.9	9.1	9.3	9.7	11.5	12.5	11.8	13.0	13.4	14.5	15.0	15.5	Net Profit (\$mill)	20.5						
38.5%	35.3%	37.6%	37.6%	29.8%	27.5%	31.3%	25.9%	15.7%	21.0%	21.0%	21.0%	Income Tax Rate	21.0%						
1.2%	1.1%	1.1%	.8%	1.8%	1.6%	1.9%	6.7%	1.7%	2.0%	1.5%	1.5%	AFUDC % to Net Profit	1.5%						
48.3%	47.1%	46.0%	45.1%	44.8%	44.4%	42.6%	43.0%	42.5%	41.3%	38.5%	37.5%	Long-Term Debt Ratio	36.0%						
51.7%	52.9%	54.0%	54.9%	55.2%	55.6%	57.4%	57.0%	57.5%	58.7%	61.5%	62.5%	Common Equity Ratio	64.0%						
176.4	180.2	184.8	188.4	189.4	196.3	198.7	209.5	219.5	228.7	235	240	Total Capital (\$mill)	250						
228.4	233.0	240.3	244.2	253.2	261.4	270.9	288.8	299.2	313.2	315	320	Net Plant (\$mill)	335						
6.5%	6.4%	6.4%	6.5%	7.4%	7.6%	7.2%	7.5%	7.3%	7.4%	7.5%	7.5%	Return on Total Cap'l	9.0%						
9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	10.4%	10.9%	10.6%	10.8%	10.5%	10.5%	Return on Shr. Equity	13.0%						
9.8%	9.5%	9.3%	9.3%	11.0%	11.5%	10.4%	10.9%	10.6%	10.8%	10.5%	10.5%	Return on Com Equity	13.0%						
2.7%	2.5%	2.4%	2.4%	3.9%	4.4%	3.4%	4.0%	3.8%	4.0%	4.0%	3.5%	Retained to Com Eq	5.0%						
72%	73%	74%	74%	74%	64%	62%	67%	64%	63%	63%	65%	All Div's to Net Prof	59%						

**CAPITAL STRUCTURE as of 12/31/19**  
 Total Debt \$101.0 mill. Due in 5 Yrs \$42.5 mill.  
 LT Debt \$94.5 mill. LT Interest \$5.5 mill.

**Pension Assets** 12/19 \$49.3 mill. (41% of Cap'l)  
 Oblig. \$47.3 mill.

**Pfd Stock** None

**Common Stock** 13,014,898 shs.

**MARKET CAP: \$600 million (Small Cap)**

CURRENT POSITION	2017	2018	12/31/19	
Cash Assets	--	--	--	
Accounts Receivable	4.5	4.8	4.4	
Inventory (Avg. Cost)	.9	.9	1.0	
Other	3.2	3.3	4.0	
Current Assets	8.6	9.0	9.4	
Accts Payable	3.1	3.0	3.4	
Debt Due	--	1.0	6.5	
Other	6.0	6.8	5.3	
Current Liab.	9.1	10.8	15.2	

**BUSINESS:** The York Water Company is the oldest investor-owned regulated water utility in the United States. It has operated continuously since 1816. As of December 31, 2019, the company's average daily availability was 35.4 million gallons and its service territory had an estimated population of 201,000. Has more than 71,400 customers. Residential customers accounted for 65% of 2019 revenues; commercial and industrial (28%); other (7%). It also provides sewer billing services. Incorporated: PA. York had 106 full-time employees at 12/31/19. President/CEO: Jeffrey R. Hines. Officers/directors own 1.2% of the common stock (3/19 proxy). Address: 130 East Market Street, York, Pennsylvania 17401. Telephone: (717) 845-3601. Internet: www.yorkwater.com.

**York Water Company is apt to post modest top- and bottom-line gains this year and next.** Although the current economic climate is far from ideal, York's operations are likely to move forward on a relatively normal basis. In fact, given an abundance of hand washing spurred by the recent health crisis, coupled with a growing number of residents urged to stay at home by government officials, the company may experience a near-term uptick in water consumption. All things considered, we continue to envision low single-digit revenue and share-net growth for 2020 and 2021.

**The stock is a favorable selection for the coming six- to 12-month stretch.** Based on our Timeliness Ranking scale, York is ranked 2 (Above Average) for relative year-ahead price performance. What's more, in comparison to the beaten-up broader market indices, shares of the regulated water utility have fared markedly better over the past six weeks of trading. Indeed, conservative investors may well continue to rebalance their portfolios, specifically by increasing exposure to companies with more stable year-ahead business prospects.

**Investment spending over the pull to mid-decade ought to continue as planned.** Leadership's recent commentary suggests capital investments of about \$30 million are on the table this year, which will likely be followed up by an additional \$27 million worth of spending in 2021. Funds will probably be allocated to dam construction and repair; waste water treatment plant expansion; and pipe, service line, and facility improvements. In our view, factoring in the company's aging infrastructure, as well as its expanding customer base, York is not likely to take its foot off the gas beyond 2021 in terms of investment spending.

**At the recent quotation, long-term investment appeal is lacking.** York shares have been on a steady ascent for the better part of the last decade. And even with the moderate pullback of late, total return potential three to five years hence is well below average. All told, despite the stock's defensive qualities, we think buy-and-hold accounts can find more-attractive options elsewhere at this juncture.

Nicholas P. Patrikis April 10, 2020

Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	11.3	12.3	12.7	12.3	48.6
2018	11.6	12.0	12.7	12.1	48.4
2019	11.8	13.0	13.7	13.0	51.5
2020	12.2	13.0	14.0	13.3	52.5
2021	12.5	13.3	14.5	13.7	54.0
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	.20	.23	.31	.27	1.01
2018	.20	.26	.29	.29	1.04
2019	.22	.28	.35	.26	1.11
2020	.22	.28	.35	.30	1.15
2021	.23	.30	.36	.31	1.20
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.1555	.1555	.1555	.1602	.627
2017	.1602	.1602	.1602	.1666	.647
2018	.1666	.1666	.1666	.1733	.673
2019	.1733	.1733	.1733	.1802	.70
2020	.1802				

(A) Diluted earnings. Next earnings report due late April.  
 (B) Dividends historically paid in late February, June, September, and December.  
 (C) In millions, adjusted for split.

Company's Financial Strength	B+
Stock's Price Stability	65
Price Growth Persistence	65
Earnings Predictability	95

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Utilities, Inc of Florida  
Summary of Risk Premium Models for the  
Proxy Group of Seven Water Companies

	<u>Proxy Group of Seven Water Companies</u>
Predictive Risk Premium Model (PRPM) (1)	11.31 %
Risk Premium Using an Adjusted Total Market Approach (2)	<u>10.50 %</u>
Average	<u><u>10.91 %</u></u>

Notes:

- (1) From page 2 of this Schedule.
- (2) From page 3 of this Schedule.

Utilities, Inc of Florida

Indicated ROE

Derived by the Predictive Risk Premium Model (1)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
Proxy Group of Seven Water Companies	LT Average Predicted Variance	Spot Predicted Variance	Recommended Variance	GARCH Coefficient	Predicted Risk Premium (2)	Risk-Free Rate (3)	Indicated ROE (4)
American States Water Co.	0.38%	0.45%	0.41%	1.89033	9.83%	2.03%	11.86%
American Water Works Company Inc	NMF	NMF	NMF	5.52177	NMF	2.03%	NMF
California Water Service Group	0.32%	0.32%	0.32%	1.90111	7.55%	2.03%	9.58%
Essential Utilities, Inc.	0.44%	0.53%	0.49%	2.25364	14.02%	2.03%	16.05%
Middlesex Water Co.	0.30%	0.27%	0.29%	2.12256	7.52%	2.03%	9.55%
SJW Group	0.42%	0.44%	0.43%	1.51190	8.03%	2.03%	10.06%
York Water Co.	0.45%	0.37%	0.41%	2.09473	10.81%	2.03%	12.84%
						Average	<u>11.66%</u>
						Median	<u>10.96%</u>
					Average of Mean and Median		<u>11.31%</u>

NMF = Not Meaningful Figure

Notes:

- (1) The Predictive Risk Premium Model uses historical data to generate a predicted variance and a GARCH coefficient. The historical data used are the equity risk premiums for the first available trading month as reported by Bloomberg Professional Service.
- (2)  $(1 + (\text{Column [3]} * \text{Column [4]}^{12})) - 1$ .
- (3) From note 2 on page 2 of Schedule DWD-5.
- (4)  $\text{Column [5]} + \text{Column [6]}$ .



Utilities, Inc of Florida  
 Indicated Common Equity Cost Rate  
 Through Use of a Risk Premium Model  
Using an Adjusted Total Market Approach

<u>Line No.</u>		<u>Proxy Group of Seven Water Companies</u>
1.	Prospective Yield on Aaa Rated Corporate Bonds (1)	3.21 %
2.	Adjustment to Reflect Yield Spread Between Aaa Rated Corporate Bonds and A Rated Public Utility Bonds	<u>0.53</u> (2)
3.	Adjusted Prospective Yield on A Rated Public Utility Bonds	3.74 %
4.	Adjustment to Reflect Bond Rating Difference of Proxy Group	<u>0.08</u> (3)
5.	Adjusted Prospective Bond Yield	3.82 %
6.	Equity Risk Premium (4)	<u>6.68</u>
7.	Risk Premium Derived Common Equity Cost Rate	<u><u>10.50</u></u> %

- Notes:
- (1) Consensus forecast of Moody's Aaa Rated Corporate bonds from Blue Chip Financial Forecasts (see pages 10-11 of this Schedule).
  - (2) The average yield spread of A rated public utility bonds over Aaa rated corporate bonds of 0.53% from page 4 of this Schedule.
  - (3) Adjustment to reflect the A2/A3 Moody's LT issuer rating of the Utility Proxy Group as shown on page 5 of this Schedule. The 0.08% upward adjustment is derived by taking 1/6 of the spread between A2 and Baa2 Public Utility Bonds ( $1/6 * 0.46\% = 0.08\%$ ) as derived from page 4 of this Schedule.
  - (4) From page 7 of this Schedule.

Utilities, Inc of Florida  
 Interest Rates and Bond Spreads for  
Moody's Corporate and Public Utility Bonds

Selected Bond Yields

	[1]	[2]	[3]
	<u>Aaa Rated Corporate Bond</u>	<u>A Rated Public Utility Bond</u>	<u>Baa Rated Public Utility Bond</u>
Apr-2020	2.43 %	3.19 %	3.82 %
Mar-2019	3.02	3.50	3.96
Feb-2019	<u>2.78</u>	<u>3.11</u>	<u>3.42</u>
Average	<u><u>2.74 %</u></u>	<u><u>3.27 %</u></u>	<u><u>3.73 %</u></u>

Selected Bond Spreads

A Rated Public Utility Bonds Over Aaa Rated Corporate Bonds:

0.53 % (1)

Baa Rated Public Utility Bonds Over A Rated Public Utility Bonds:

0.46 % (2)

Notes:

(1) Column [2] - Column [1].

(2) Column [3] - Column [2].

Source of Information:

Bloomberg Professional Service

Utilities, Inc of Florida  
 Comparison of Long-Term Issuer Ratings for  
Proxy Group of Seven Water Companies

	<u>Moody's</u>		<u>Standard &amp; Poor's</u>	
	<u>Long-Term Issuer Rating</u>	<u>April 2020</u>	<u>Long-Term Issuer Rating</u>	<u>April 2020</u>
<u>Proxy Group of Seven Water Companies</u>	<u>Long-Term Issuer Rating</u>	<u>Numerical Weighting (1)</u>	<u>Long-Term Issuer Rating</u>	<u>Numerical Weighting(1)</u>
American States Water Co. (2)	A2	6.0	A+	5.0
American Water Works Company Inc (3)	A3	7.0	A	6.0
California Water Service Group (4)	NR	--	A+	5.0
Essential Utilities, Inc. (5)	NR	--	A	6.0
Middlesex Water Co.	NR	--	A	6.0
SJW Corp. (6)	NR	--	A/A-	6.5
York Water Co.	NR	--	A-	7.0
Average	<u>A2/A3</u>	<u>6.5</u>	<u>A</u>	<u>5.9</u>

Notes:

- (1) From page 6 of this Schedule.
- (2) Ratings that of Golden State Water Company.
- (3) Ratings that of New Jersey and Pennsylvania American Water Companies.
- (4) Ratings that of California Water Service Company.
- (5) Ratings that of Aqua Pennsylvania, Inc.
- (6) Ratings that of San Jose Water Company and The Connecticut Water Company

Source Information:    Moody's Investors Service  
                                  Standard & Poor's Global Utilities Rating Service

Numerical Assignment for  
Moody's and Standard & Poor's Bond Ratings

<u>Moody's Bond Rating</u>	<u>Numerical Bond Weighting</u>	<u>Standard &amp; Poor's Bond Rating</u>
Aaa	1	AAA
Aa1	2	AA+
Aa2	3	AA
Aa3	4	AA-
A1	5	A+
A2	6	A
A3	7	A-
Baa1	8	BBB+
Baa2	9	BBB
Baa3	10	BBB-
Ba1	11	BB+
Ba2	12	BB
Ba3	13	BB-
B1	14	B+
B2	15	B
B3	16	B-

Utilities, Inc of Florida  
Judgment of Equity Risk Premium for  
Proxy Group of Seven Water Companies

<u>Line No.</u>		<u>Proxy Group of Seven Water Companies</u>
1.	Calculated equity risk premium based on the total market using the beta approach (1)	7.60 %
2.	Mean equity risk premium based on a study using the holding period returns of public utilities with A rated bonds (2)	<u>5.76</u>
3.	Average equity risk premium	<u><u>6.68 %</u></u>

Notes: (1) From page 8 of this Schedule.  
(2) From page 12 of this Schedule.

Utilities, Inc of Florida  
 Derivation of Equity Risk Premium Based on the Total Market Approach  
 Using the Beta for the  
Proxy Group of Seven Water Companies

<u>Line No.</u>	<u>Equity Risk Premium Measure</u>	<u>Proxy Group of Seven Water Companies</u>
<u>Ibbotson-Based Equity Risk Premiums:</u>		
1.	Ibbotson Equity Risk Premium (1)	5.78 %
2.	Regression on Ibbotson Risk Premium Data (2)	9.12
3.	Ibbotson Equity Risk Premium based on PRPM (3)	11.95
4.	Equity Risk Premium Based on Value Line Summary and Index (4)	15.50
5.	Equity Risk Premium Based on Value Line S&P 500 Companies (5)	11.58
6.	Equity Risk Premium Based on Bloomberg S&P 500 Companies (6)	<u>10.32</u>
7.	Conclusion of Equity Risk Premium	10.71 %
8.	Adjusted Beta (7)	<u>0.71</u>
9.	Forecasted Equity Risk Premium	<u><u>7.60</u></u> %

Notes provided on page 9 of this Schedule.

Utilities, Inc of Florida  
Derivation of Equity Risk Premium Based on the Total Market Approach  
Using the Beta for the  
Proxy Group of Seven Water Companies

Notes:

- (1) Based on the arithmetic mean historical monthly returns on large company common stocks from Ibbotson@ SBBI@ 2020 Market Report minus the arithmetic mean monthly yield of Moody's average Aaa and Aa corporate bonds from 1926-2019.
- (2) This equity risk premium is based on a regression of the monthly equity risk premiums of large company common stocks relative to Moody's average Aaa and Aa rated corporate bond yields from 1928-2019 referenced in Note 1 above.
- (3) The Predictive Risk Premium Model (PRPM) is discussed in the accompanying direct testimony. The Ibbotson equity risk premium based on the PRPM is derived by applying the PRPM to the monthly risk premiums between Ibbotson large company common stock monthly returns and average Aaa and Aa corporate monthly bond yields, from January 1928 through April 2020.
- (4) The equity risk premium based on the Value Line Summary and Index is derived by subtracting the average consensus forecast of Aaa corporate bonds of 3.21% (from page 3 of this Schedule) from the projected 3-5 year total annual market return of 18.71% (described fully in note 1 on page 2 of Schedule DWD-5).
- (5) Using data from Value Line for the S&P 500, an expected total return of 14.79% was derived based upon expected dividend yields and long-term earnings growth estimates as a proxy for capital appreciation. Subtracting the average consensus forecast of Aaa corporate bonds of 3.21% results in an expected equity risk premium of 11.58%.
- (6) Using data from the Bloomberg Professional Service for the S&P 500, an expected total return of 13.53% was derived based upon expected dividend yields and long-term earnings growth estimates as a proxy for capital appreciation. Subtracting the average consensus forecast of Aaa corporate bonds of 3.21% results in an expected equity risk premium of 10.32%.
- (7) Average of mean and median beta from Schedule DWD-5.

Sources of Information:

Stocks, Bonds, Bills, and Inflation - 2020 SBBI Yearbook, John Wiley & Sons, Inc.  
Industrial Manual and Mergent Bond Record Monthly Update.  
Value Line Summary and Index  
Blue Chip Financial Forecasts, May 1, 2020 and December 1, 2019  
Bloomberg Professional Service

## Consensus Forecasts of U.S. Interest Rates and Key Assumptions

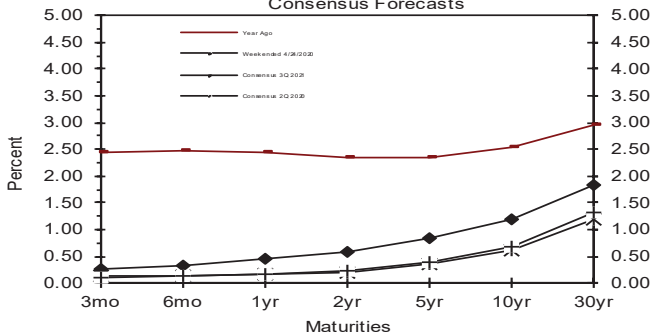
Interest Rates	History								Consensus Forecasts-Quarterly Avg.					
	Average For Week Ending				Average For Month				Latest Qtr	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021
	Apr 24	Apr 17	Apr 10	Apr 3	Mar	Feb	Jan	1Q 2020	2020	2020	2020	2021	2021	2021
Federal Funds Rate	0.05	0.05	0.05	0.09	0.65	1.58	1.55	1.26	0.1	0.1	0.1	0.1	0.2	0.2
Prime Rate	3.25	3.25	3.25	3.25	3.81	4.75	4.75	4.44	3.3	3.3	3.3	3.3	3.3	3.4
LIBOR, 3-mo.	1.01	1.14	1.30	1.42	1.10	1.68	1.82	1.53	0.9	0.7	0.6	0.6	0.6	0.7
Commercial Paper, 1-mo.	0.38	0.37	0.37	1.42	1.36	1.55	1.56	1.49	0.4	0.4	0.4	0.4	0.5	0.6
Treasury bill, 3-mo.	0.12	0.17	0.19	0.10	0.30	1.54	1.55	1.13	0.1	0.1	0.1	0.2	0.2	0.3
Treasury bill, 6-mo.	0.14	0.21	0.21	0.14	0.30	1.51	1.56	1.12	0.1	0.2	0.2	0.2	0.3	0.3
Treasury bill, 1 yr.	0.17	0.21	0.22	0.15	0.33	1.41	1.53	1.09	0.2	0.2	0.3	0.3	0.4	0.4
Treasury note, 2 yr.	0.21	0.22	0.26	0.23	0.45	1.33	1.52	1.10	0.2	0.3	0.4	0.4	0.5	0.6
Treasury note, 5 yr.	0.36	0.38	0.45	0.38	0.59	1.32	1.56	1.16	0.4	0.5	0.6	0.7	0.7	0.8
Treasury note, 10 yr.	0.61	0.68	0.73	0.65	0.87	1.50	1.76	1.38	0.7	0.8	0.9	1.0	1.1	1.2
Treasury note, 30 yr.	1.19	1.31	1.33	1.29	1.46	1.97	2.22	1.88	1.3	1.4	1.5	1.6	1.7	1.8
Corporate Aaa bond	2.75	2.81	3.03	3.05	3.11	2.85	3.04	3.00	2.6	2.7	2.8	2.8	2.9	3.0
Corporate Baa bond	3.70	3.75	4.13	4.23	4.11	3.50	3.66	3.76	4.3	4.3	4.2	4.3	4.2	4.3
State & Local bonds	3.37	3.29	3.42	3.45	3.29	2.93	3.00	3.07	2.6	2.6	2.6	2.6	2.6	2.6
Home mortgage rate	3.33	3.31	3.33	3.33	3.45	3.47	3.62	3.51	3.3	3.3	3.2	3.2	3.3	3.3

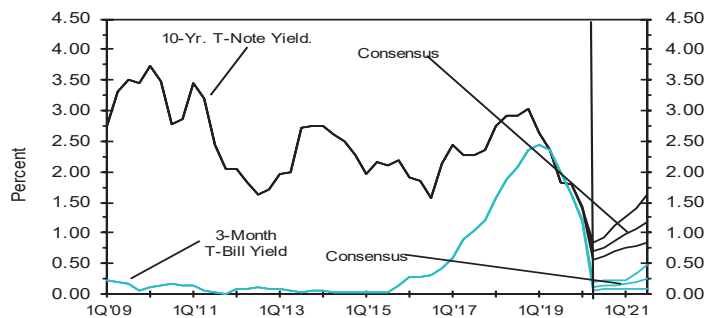
Key Assumptions	History								Consensus Forecasts-Quarterly					
	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	3Q 2020	4Q 2020	1Q 2021	2Q 2021	3Q 2021
Fed's AFE \$ Index	105.5	107.8	109.4	109.4	110.3	110.5	110.3	111.2	113.5	113.5	113.2	112.9	112.5	112.2
Real GDP	3.5	2.9	1.1	3.1	2.0	2.1	2.1	-4.8	-27.8	7.4	9.2	6.6	4.8	3.6
GDP Price Index	3.2	2.0	1.6	1.1	2.4	1.8	1.3	1.3	0.1	1.1	1.3	1.7	1.9	1.8
Consumer Price Index	2.2	2.1	1.3	0.9	3.0	1.8	2.4	1.2	-2.4	1.1	1.7	2.1	2.1	2.1

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data: Treasury rates from the Federal Reserve Board's H.15; AAA-AA and A-BBB corporate bond yields from Bank of America-Merrill Lynch and are 15+ years, yield to maturity; State and local bond yields from Bank of America-Merrill Lynch, A-rated, yield to maturity; Mortgage rates from Freddie Mac, 30-year, fixed; LIBOR quotes from Intercontinental Exchange. All interest rate data are sourced from Haver Analytics. Historical data for Fed's Major Currency Index are from FRSR H.10. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS).

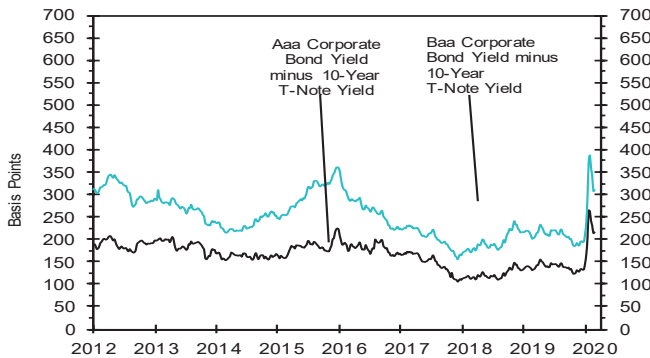
**U.S. Treasury Yield Curve**  
 Week ended April 24, 2020 & Year Ago vs.  
 2Q 2020 & 3Q 2021  
 Consensus Forecasts



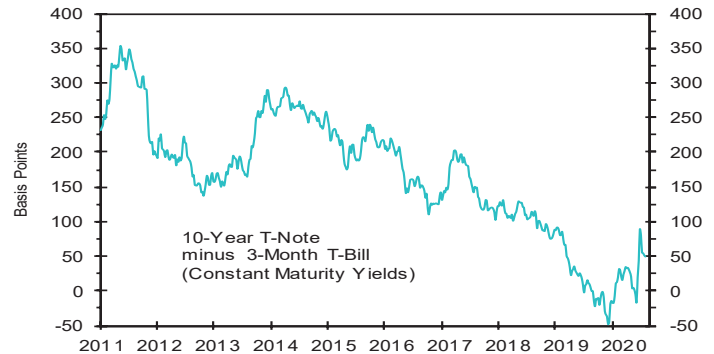
**U.S. 3-Mo. T-Bills & 10-Yr. T-Note Yield**  
 (Quarterly Average) Forecast



**Corporate Bond Spreads**  
 As of week ended April 24, 2020



**U.S. Treasury Yield Curve**  
 As of week ended April 24, 2020





## Long-Range Survey:

The table below contains the results of our twice-annual long-range CONSENSUS survey. There are also Top 10 and Bottom 10 averages for each variable. Shown are consensus estimates for the years 2021 through 2025 and averages for the five-year periods 2021-2025 and 2026-2030. Apply these projections cautiously. Few if any economic, demographic and political forces can be evaluated accurately over such long time spans.

		----- Average For The Year -----					Five-Year Averages	
		2021	2022	2023	2024	2025	2021-2025	2026-2030
1. Federal Funds Rate	CONSENSUS	<b>1.5</b>	<b>1.9</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>2.1</b>	<b>2.4</b>
	Top 10 Average	2.1	2.6	2.7	2.9	3.0	2.6	3.0
	Bottom 10 Average	1.0	1.2	1.5	1.8	1.9	1.5	1.9
2. Prime Rate	CONSENSUS	<b>4.5</b>	<b>4.9</b>	<b>5.1</b>	<b>5.4</b>	<b>5.5</b>	<b>5.1</b>	<b>5.5</b>
	Top 10 Average	5.0	5.5	5.7	6.0	6.0	5.6	6.0
	Bottom 10 Average	4.0	4.3	4.6	4.9	5.0	4.5	5.0
3. LIBOR, 3-Mo.	CONSENSUS	<b>1.9</b>	<b>2.2</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.7</b>
	Top 10 Average	2.4	2.7	2.9	3.1	3.2	2.9	3.2
	Bottom 10 Average	1.4	1.6	1.8	2.0	2.2	1.8	2.2
4. Commercial Paper, 1-Mo.	CONSENSUS	<b>1.7</b>	<b>2.1</b>	<b>2.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.3</b>	<b>2.7</b>
	Top 10 Average	2.2	2.5	2.8	3.0	3.1	2.7	3.1
	Bottom 10 Average	1.3	1.6	1.8	2.1	2.2	1.8	2.2
5. Treasury Bill Yield, 3-Mo.	CONSENSUS	<b>1.5</b>	<b>1.8</b>	<b>2.0</b>	<b>2.3</b>	<b>2.4</b>	<b>2.0</b>	<b>2.4</b>
	Top 10 Average	2.1	2.6	2.7	2.9	3.0	2.6	<b>3.0</b>
	Bottom 10 Average	1.0	1.2	1.4	1.7	1.8	1.4	<b>1.8</b>
6. Treasury Bill Yield, 6-Mo.	CONSENSUS	<b>1.6</b>	<b>1.9</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>	<b>2.1</b>	<b>2.5</b>
	Top 10 Average	2.2	2.6	2.8	3.0	3.1	2.7	<b>3.1</b>
	Bottom 10 Average	1.1	1.3	1.5	1.8	2.0	1.5	<b>2.0</b>
7. Treasury Bill Yield, 1-Yr.	CONSENSUS	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>2.5</b>	<b>2.6</b>	<b>2.2</b>	<b>2.7</b>
	Top 10 Average	2.3	2.7	2.9	3.2	3.2	2.8	<b>3.2</b>
	Bottom 10 Average	1.2	1.3	1.6	1.9	2.1	1.6	<b>2.1</b>
8. Treasury Note Yield, 2-Yr.	CONSENSUS	<b>1.8</b>	<b>2.1</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>2.3</b>	<b>2.8</b>
	Top 10 Average	2.4	2.8	3.1	3.3	3.4	3.0	<b>3.4</b>
	Bottom 10 Average	1.2	1.5	1.7	2.0	2.2	1.7	<b>2.2</b>
10. Treasury Note Yield, 5-Yr.	CONSENSUS	<b>2.0</b>	<b>2.3</b>	<b>2.6</b>	<b>2.8</b>	<b>2.9</b>	<b>2.5</b>	<b>3.0</b>
	Top 10 Average	2.6	3.0	3.2	3.5	3.5	3.2	<b>3.6</b>
	Bottom 10 Average	1.5	1.7	1.9	2.1	2.3	1.9	<b>2.3</b>
11. Treasury Note Yield, 10-Yr.	CONSENSUS	<b>2.3</b>	<b>2.5</b>	<b>2.8</b>	<b>3.0</b>	<b>3.1</b>	<b>2.8</b>	<b>3.2</b>
	Top 10 Average	2.9	3.3	3.6	3.8	3.9	3.5	<b>4.0</b>
	Bottom 10 Average	1.8	1.9	2.1	2.3	2.4	2.1	<b>2.5</b>
12. Treasury Bond Yield, 30-Yr.	CONSENSUS	<b>2.8</b>	<b>3.0</b>	<b>3.2</b>	<b>3.5</b>	<b>3.6</b>	<b>3.2</b>	<b>3.7</b>
	Top 10 Average	3.3	3.6	4.0	4.2	4.3	3.9	<b>4.4</b>
	Bottom 10 Average	2.2	2.4	2.5	2.7	2.9	2.6	<b>2.9</b>
13. Corporate Aaa Bond Yield	CONSENSUS	<b>3.7</b>	<b>4.0</b>	<b>4.3</b>	<b>4.5</b>	<b>4.6</b>	<b>4.2</b>	<b>4.7</b>
	Top 10 Average	4.3	4.6	4.9	5.2	5.3	4.9	<b>5.4</b>
	Bottom 10 Average	3.2	3.4	3.6	3.7	3.9	3.6	<b>4.0</b>
13. Corporate Baa Bond Yield	CONSENSUS	<b>4.7</b>	<b>4.9</b>	<b>5.2</b>	<b>5.4</b>	<b>5.6</b>	<b>5.2</b>	<b>5.6</b>
	Top 10 Average	5.3	5.6	5.9	6.2	6.3	5.9	<b>6.4</b>
	Bottom 10 Average	4.2	4.3	4.4	4.6	4.8	4.5	<b>4.8</b>
14. State & Local Bonds Yield	CONSENSUS	<b>3.6</b>	<b>3.7</b>	<b>3.9</b>	<b>4.1</b>	<b>4.2</b>	<b>3.9</b>	<b>4.2</b>
	Top 10 Average	4.0	4.3	4.5	4.6	4.7	4.4	<b>4.7</b>
	Bottom 10 Average	3.2	3.2	3.3	3.5	3.7	3.4	<b>3.8</b>
15. Home Mortgage Rate	CONSENSUS	<b>4.1</b>	<b>4.2</b>	<b>4.5</b>	<b>4.7</b>	<b>4.8</b>	<b>4.5</b>	<b>4.9</b>
	Top 10 Average	4.5	4.8	5.1	5.4	5.4	5.0	<b>5.5</b>
	Bottom 10 Average	3.7	3.7	3.9	4.1	4.2	3.9	<b>4.2</b>
A. Fed's AFE Nominal \$ Index	CONSENSUS	<b>108.8</b>	<b>108.8</b>	<b>109.1</b>	<b>109.2</b>	<b>108.8</b>	<b>108.9</b>	<b>108.3</b>
	Top 10 Average	110.6	110.7	111.1	111.5	111.6	111.1	111.8
	Bottom 10 Average	107.0	107.0	107.1	107.1	106.5	106.9	105.7
		----- Year-Over-Year, % Change -----					Five-Year Averages	
		2021	2022	2023	2024	2025	2021-2025	2026-2030
B. Real GDP	CONSENSUS	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>
	Top 10 Average	2.4	2.4	2.3	2.2	2.2	2.3	2.3
	Bottom 10 Average	1.4	1.6	1.6	1.7	1.7	1.6	1.7
C. GDP Chained Price Index	CONSENSUS	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>
	Top 10 Average	2.6	2.8	2.7	2.6	2.6	2.7	2.6
	Bottom 10 Average	1.8	1.8	1.9	1.9	1.9	1.9	1.9
D. Consumer Price Index	CONSENSUS	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>	<b>2.1</b>	<b>2.2</b>	<b>2.1</b>
	Top 10 Average	2.4	2.4	2.5	2.4	2.3	2.4	2.3
	Bottom 10 Average	1.8	1.9	2.0	2.0	1.9	1.9	2.0

Utilities, Inc of Florida  
 Derivation of Mean Equity Risk Premium Based Studies  
 Using Holding Period Returns and  
Projected Market Appreciation of the S&P Utility Index

<u>Line No.</u>		<u>Implied Equity Risk Premium</u>
	<u>Equity Risk Premium based on S&amp;P Utility Index Holding Period Returns (1):</u>	
1.	Historical Equity Risk Premium	4.21 %
2.	Regression of Historical Equity Risk Premium (2)	6.68
3.	Forecasted Equity Risk Premium Based on PRPM (3)	5.95
4.	Forecasted Equity Risk Premium based on Projected Total Return on the S&P Utilities Index (Value Line Data) (4)	6.76
5.	Forecasted Equity Risk Premium based on Projected Total Return on the S&P Utilities Index (Bloomberg Data) (5)	<u>5.23</u>
6.	Average Equity Risk Premium (6)	<u><u>5.76 %</u></u>

- Notes: (1) Based on S&P Public Utility Index monthly total returns and Moody's Public Utility Bond average monthly yields from 1928-2019. Holding period returns are calculated based upon income received (dividends and interest) plus the relative change in the market value of a security over a one-year holding period.
- (2) This equity risk premium is based on a regression of the monthly equity risk premiums of the S&P Utility Index relative to Moody's A rated public utility bond yields from 1928 - 2019 referenced in note 1 above.
- (3) The Predictive Risk Premium Model (PRPM) is applied to the risk premium of the monthly total returns of the S&P Utility Index and the monthly yields on Moody's A rated public utility bonds from January 1928 - April 2020.
- (4) Using data from Value Line for the S&P Utilities Index, an expected return of 10.50% was derived based on expected dividend yields and long-term growth estimates as a proxy for market appreciation. Subtracting the expected A rated public utility bond yield of 3.74%, calculated on line 3 of page 3 of this Schedule results in an equity risk premium of 7.47%. (10.50% - 3.74% = 6.76%)
- (5) Using data from Bloomberg Professional Service for the S&P Utilities Index, an expected return of 8.97% was derived based on expected dividend yields and long-term growth estimates as a proxy for market appreciation. Subtracting the expected A rated public utility bond yield of 3.74%, calculated on line 3 of page 3 of this Schedule results in an equity risk premium of 5.23%. (8.97% - 3.74% = 5.23%)
- (6) Average of lines 1 through 5.

Utilities, Inc of Florida  
 Indicated Common Equity Cost Rate Through Use  
 of the Traditional Capital Asset Pricing Model (CAPM) and Empirical Capital Asset Pricing Model (ECAPM)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Proxy Group of Seven Water Companies	Value Line Adjusted Beta	Bloomberg Adjusted Beta	Average Beta	Market Risk Premium (1)	Risk-Free Rate (2)	Traditional CAPM Cost Rate	ECAPM Cost Rate	Indicated Common Equity Cost Rate (3)
American States Water Co.	0.60	0.52	0.56	11.94 %	2.03 %	8.72 %	10.03 %	9.37 %
American Water Works Company Inc	0.50	1.00	0.75	11.94	2.03	10.99	11.73	11.36
California Water Service Group	0.60	0.51	0.55	11.94	2.03	8.60	9.94	9.27
Essential Utilities, Inc.	0.60	0.96	0.78	11.94	2.03	11.34	12.00	11.67
Middlesex Water Co.	0.70	0.73	0.72	11.94	2.03	10.63	11.46	11.05
SJW Group	0.60	0.83	0.71	11.94	2.03	10.51	11.37	10.94
York Water Co.	0.65	0.89	0.77	11.94	2.03	11.22	11.91	11.57
Mean			<u>0.69</u>			<u>10.29 %</u>	<u>11.21 %</u>	<u>10.75 %</u>
Median			<u>0.72</u>			<u>10.63 %</u>	<u>11.46 %</u>	<u>11.05 %</u>
Average of Mean and Median			<u>0.71</u>			<u>10.46</u>	<u>11.34</u>	<u>10.90 %</u>

Notes on page 2 of this Schedule.

Utilities, Inc of Florida  
Notes to Accompany the Application of the CAPM and ECAPM

Notes:

- (1) The market risk premium (MRP) is derived by using six different measures from three sources: Ibbotson, Value Line, and Bloomberg as illustrated below:

Historical Data MRP Estimates:

Measure 1: Ibbotson Arithmetic Mean MRP (1926-2019)

Arithmetic Mean Monthly Returns for Large Stocks 1926-2019:	12.10 %
Arithmetic Mean Income Returns on Long-Term Government Bonds:	<u>5.09</u>
MRP based on Ibbotson Historical Data:	<u>7.01 %</u>

Measure 2: Application of a Regression Analysis to Ibbotson Historical Data (1926-2019)

10.26 %

Measure 3: Application of the PRPM to Ibbotson Historical Data: (January 1926 - April 2020)

13.44 %

Value Line MRP Estimates:

Measure 4: Value Line Projected MRP (Thirteen weeks ending May 01, 2020)

Total projected return on the market 3-5 years hence*:	18.71 %
Projected Risk-Free Rate (see note 2):	<u>2.03</u>
MRP based on Value Line Summary & Index:	<u>16.68 %</u>

\*Forecasted 3-5 year capital appreciation plus expected dividend yield

Measure 5: Value Line Projected Return on the Market based on the S&P 500

Total return on the Market based on the S&P 500:	14.79 %
Projected Risk-Free Rate (see note 2):	<u>2.03</u>
MRP based on Value Line data	<u>12.76 %</u>

Measure 6: Bloomberg Projected MRP

Total return on the Market based on the S&P 500:	13.53 %
Projected Risk-Free Rate (see note 2):	<u>2.03</u>
MRP based on Bloomberg data	<u>11.50 %</u>

Average of Value Line, Ibbotson, and Bloomberg MRP: 11.94 %

- (2) For reasons explained in the direct testimony, the appropriate risk-free rate for cost of capital purposes is the average forecast of 30 year Treasury Bonds per the consensus of nearly 50 economists reported in Blue Chip Financial Forecasts. (See pages 10-11 of Schedule DWD-4.) The projection of the risk-free rate is illustrated below:

Second Quarter 2020	1.30 %
Third Quarter 2020	1.40
Fourth Quarter 2020	1.50
First Quarter 2021	1.60
Second Quarter 2021	1.70
Third Quarter 2021	1.80
2021-2025	3.20
2026-2030	<u>3.70</u>
	<u>2.03 %</u>

- (3) Average of Column 6 and Column 7.

Sources of Information:

Value Line Summary and Index  
 Blue Chip Financial Forecasts, May 1, 2020 and December 1, 2019  
 Stocks, Bonds, Bills, and Inflation - 2020 SBBi Yearbook, John Wiley & Sons, Inc.  
 Bloomberg Professional Services

Utilities, Inc. of Florida  
Basis of Selection of the Group of Non-Price Regulated Companies  
Comparable in Total Risk to the Utility Proxy Group

The criteria for selection of the Non-Price Regulated Proxy Group was that the non-price regulated companies be domestic and reported in Value Line Investment Survey (Standard Edition).

The Non-Price Regulated Proxy Group was then selected based on the unadjusted beta range of 0.17 – 0.61 and residual standard error of the regression range of 2.6429 – 3.1521 of the Utility Proxy Group.

These ranges are based upon plus or minus two standard deviations of the unadjusted beta and standard error of the regression. Plus or minus two standard deviations captures 95.50% of the distribution of unadjusted betas and residual standard errors of the regression.

The standard deviation of the Utility Proxy Group's residual standard error of the regression is 0.1273. The standard deviation of the standard error of the regression is calculated as follows:

$$\text{Standard Deviation of the Std. Err. of the Regr.} = \frac{\text{Standard Error of the Regression}}{\sqrt{2N}}$$

where: N = number of observations. Since Value Line betas are derived from weekly price change observations over a period of five years, N = 259

$$\text{Thus, } 0.1273 = \frac{2.8975}{\sqrt{518}} = \frac{2.8975}{22.7596}$$

Source of Information: Value Line, Inc., March 2020  
Value Line Investment Survey (Standard Edition)

Utilities, Inc of Florida  
 Basis of Selection of Comparable Risk  
Domestic Non-Price Regulated Companies

	[1]	[2]	[3]	[4]
<u>Proxy Group of Seven Water Companies</u>	<u>Value Line Adjusted Beta</u>	<u>Unadjusted Beta</u>	<u>Residual Standard Error of the Regression</u>	<u>Standard Deviation of Beta</u>
American States Water Co.	0.60	0.36	2.6563	0.0986
American Water Works Company Inc	0.50	0.23	2.2596	0.0839
California Water Service Group	0.60	0.38	2.3220	0.0862
Essential Utilities, Inc.	0.60	0.39	2.9281	0.1087
Middlesex Water Co.	0.70	0.54	3.4080	0.1265
SJW Group	0.60	0.38	3.2407	0.1203
York Water Co.	0.65	0.46	3.4676	0.1287
Average	<u>0.61</u>	<u>0.39</u>	<u>2.8975</u>	<u>0.1076</u>
Beta Range (+/- 2 std. Devs. of Beta) 2 std. Devs. of Beta	0.17 0.22	0.61		
Residual Std. Err. Range (+/- 2 std. Devs. of the Residual Std. Err.)	2.6429	3.1521		
Std. dev. of the Res. Std. Err.	0.1273			
2 std. devs. of the Res. Std. Err.	0.2546			

Source of Information: Valueline Proprietary Database, March 2020

Utilities, Inc of Florida  
 Proxy Group of Non-Price Regulated Companies  
 Comparable in Total Risk to the  
Proxy Group of Seven Water Companies

	[1]	[2]	[3]	[4]
<u>Proxy Group of Twelve Non-Price Regulated Companies</u>	<u>VL Adjusted Beta</u>	<u>Unadjusted Beta</u>	<u>Residual Standard Error of the Regression</u>	<u>Standard Deviation of Beta</u>
Casey's Gen'l Stores	0.70	0.53	2.9602	0.1099
Cboe Global Markets	0.65	0.46	2.7206	0.1010
Cracker Barrel	0.70	0.54	3.0507	0.1132
Campbell Soup	0.65	0.40	2.9785	0.1105
Dunkin' Brands Group	0.70	0.51	2.7046	0.1004
Darden Restaurants	0.75	0.60	2.9890	0.1109
Hormel Foods	0.60	0.34	2.6862	0.0997
Lancaster Colony	0.70	0.48	2.6628	0.0988
Lilly (Eli)	0.75	0.54	2.6484	0.0983
Lamb Weston Holdings	0.65	0.43	2.8592	0.1543
Altria Group	0.70	0.50	2.6455	0.0982
Valvoline Inc.	0.75	0.57	3.1081	0.1659
Average	<u>0.69</u>	<u>0.49</u>	<u>2.8300</u>	<u>0.1100</u>
Proxy Group of Seven Water Companies	<u>0.61</u>	<u>0.39</u>	<u>2.8975</u>	<u>0.1076</u>

Source of Information:

Valueline Proprietary Database, March 2020

Utilities, Inc of Florida  
 Summary of Cost of Equity Models Applied to  
 Proxy Group of Twelve Non-Price Regulated Companies  
 Comparable in Total Risk to the  
Proxy Group of Seven Water Companies

Principal Methods	Proxy Group of Twelve Non-Price Regulated Companies
Discounted Cash Flow Model (DCF) (1)	8.41 %
Risk Premium Model (RPM) (2)	13.12
Capital Asset Pricing Model (CAPM) (3)	11.83
	Mean <u>11.12</u> %
	Median <u>11.83</u> %
Average of Mean and Median	11.48 %

Notes:

- (1) From page 2 of this Schedule.
- (2) From page 3 of this Schedule.
- (3) From page 6 of this Schedule.



Utilities, Inc of Florida  
 DCF Results for the Proxy Group of Non-Price-Regulated Companies Comparable in Total Risk to the  
Proxy Group of Seven Water Companies

[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Proxy Group of Twelve Non-Price Regulated Companies	Value Line Projected Five Year Growth in EPS	Zack's Five Year Projected Growth Rate in EPS	Yahoo! Finance Projected Five Year Growth in EPS	Bloomberg Projected Five Year Growth in EPS	Average Projected Five Year Growth Rate in EPS	Adjusted Dividend Yield	Indicated Common Equity Cost Rate (1)
Casey's Gen'l Stores	0.83 %	8.30 %	9.27 %	11.53 %	8.90 %	0.87 %	9.77 %
Choe Global Markets	1.39	2.30	3.24	6.15	6.05	1.43	7.48
Cracker Barrel	-	NA	0.30	(4.99)	3.90	-	NA
Campbell Soup	2.89	7.20	2.75	7.48	4.86	2.96	7.82
Dunkin' Brands Group	-	9.90	4.76	6.14	7.58	-	NA
Darden Restaurants	-	10.00	NA	5.82	8.94	-	NA
Hormel Foods	2.02	6.00	4.00	4.63	5.78	2.08	7.86
Lancaster Colony	1.96	NA	3.00	NA	4.00	2.00	6.00
Lilly (Eli)	2.09	12.30	12.52	11.31	11.53	2.21	13.74
Lamb Weston Holdings	1.31	3.40	3.40	(1.85)	5.43	1.35	6.78
Altria Group	8.29	5.00	3.53	5.25	5.57	8.52	14.09
Valvoline Inc.	2.71	2.60	2.60	4.84	4.63	2.77	7.40
						Mean	8.99 %
						Median	7.82 %
					Average of Mean and Median		8.41 %

NA= Not Available  
 NMF= Not Meaningful Figure

(1) The application of the DCF model to the domestic, non-price regulated comparable risk companies is identical to the application of the DCF to the utility proxy group. The dividend yield is derived by using the 60 day average price and the spot indicated dividend as of April 30, 2020. The dividend yield is then adjusted by 1/2 the average projected growth rate in EPS, which is calculated by averaging the 5 year projected growth in EPS provided by Value Line, www.reuters.com, www.zacks.com, and www.yahoo.com (excluding any negative growth rates) and then adding that growth rate to the adjusted dividend yield.

Source of Information:  
 Value Line Investment Survey  
 www.reuters.com Downloaded on 04/30/2020  
 www.zacks.com Downloaded on 04/30/2020  
 www.yahoo.com Downloaded on 04/30/2020  
 Bloomberg Professional Services

Utilities, Inc of Florida  
 Indicated Common Equity Cost Rate  
 Through Use of a Risk Premium Model  
Using an Adjusted Total Market Approach

<u>Line No.</u>		<u>Proxy Group of Twelve Non-Price Regulated Companies</u>
1.	Prospective Yield on Baa Rated Corporate Bonds (1)	4.55 %
2.	Equity Risk Premium (2)	<u>8.57</u>
3.	Risk Premium Derived Common Equity Cost Rate	<u><u>13.12 %</u></u>

Notes: (1) Average forecast of Baa corporate bonds based upon the consensus of nearly 50 economists reported in Blue Chip Financial Forecasts dated May 1, 2020 and December 1, 2019 (see pages 10 and 11 of Schedule DWD-4). The estimates are detailed below.

Second Quarter 2020	4.30 %
Third Quarter 2020	4.30
Fourth Quarter 2020	4.20
First Quarter 2021	4.30
Second Quarter 2021	4.20
Third Quarter 2021	4.30
2021-2025	5.20
2026-2030	<u>5.60</u>
Average	<u><u>4.55 %</u></u>

(2) From page 5 of this Schedule.

Utilities, Inc of Florida  
 Comparison of Long-Term Issuer Ratings for the  
 Proxy Group of Twelve Non-Price Regulated Companies of Comparable risk to the  
Proxy Group of Seven Water Companies

<u>Proxy Group of Twelve Non-Price Regulated Companies</u>	<u>Moody's</u> Long-Term Issuer Rating April 2020		<u>Standard &amp; Poor's</u> Long-Term Issuer Rating April 2020	
	<u>Long-Term Issuer Rating</u>	<u>Numerical Weighting (1)</u>	<u>Long-Term Issuer Rating</u>	<u>Numerical Weighting (1)</u>
Casey's Gen'l Stores	NA	--	NA	--
Cboe Global Markets	A3	7.0	A-	7.0
Cracker Barrel	WR	--	NR	--
Campbell Soup	Baa2	9.0	BBB-	10.0
Dunkin' Brands Group	NA	--	NA	--
Darden Restaurants	Baa3	10.0	BBB-	10.0
Hormel Foods	A1	5.0	A	6.0
Lancaster Colony	NA	--	NA	--
Lilly (Eli)	A2	6.0	A+	5.0
Lamb Weston Holdings	Ba2	12.0	BB+	11.0
Altria Group	A3	7.0	BBB	9.0
Valvoline Inc.	Ba3	13.0	BB	12.0
Average	<u>Baa2</u>	<u>8.6</u>	<u>BBB+</u>	<u>8.8</u>

Notes:

(1) From page 6 of Schedule DWD-4.

Source of Information:

Bloomberg Professional Services

Utilities, Inc of Florida  
 Derivation of Equity Risk Premium Based on the Total Market Approach  
 Using the Beta for  
 Proxy Group of Twelve Non-Price Regulated Companies of Comparable risk to the  
Proxy Group of Seven Water Companies

<u>Line No.</u>	<u>Equity Risk Premium Measure</u>	<u>Proxy Group of Twelve Non-Price Regulated Companies</u>
<u>Ibbotson-Based Equity Risk Premiums:</u>		
1.	Ibbotson Equity Risk Premium (1)	5.78 %
2.	Regression on Ibbotson Risk Premium Data (2)	9.12
3.	Ibbotson Equity Risk Premium based on PRPM (3)	11.95
4.	Equity Risk Premium Based on <u>Value Line</u> Summary and Index (4)	15.50
5.	Equity Risk Premium Based on <u>Value Line</u> S&P 500 Companies (5)	11.58
6.	Equity Risk Premium Based on Bloomberg S&P 500 Companies (6)	<u>10.32</u>
7.	Conclusion of Equity Risk Premium	10.71 %
8.	Adjusted Beta (7)	<u>0.80</u>
9.	Forecasted Equity Risk Premium	<u><u>8.57 %</u></u>

Notes:

- (1) From note 1 of page 9 of Schedule DWD-4.
- (2) From note 2 of page 9 of Schedule DWD-4.
- (3) From note 3 of page 9 of Schedule DWD-4.
- (4) From note 4 of page 9 of Schedule DWD-4.
- (5) From note 5 of page 9 of Schedule DWD-4.
- (6) From note 6 of page 9 of Schedule DWD-4.
- (7) Average of mean and median beta from page 6 of this Schedule.

Sources of Information:

Stocks, Bonds, Bills, and Inflation - 2020 SBBi Yearbook, John Wiley & Sons, Inc.  
Value Line Summary and Index  
 Blue Chip Financial Forecasts, May 1, 2020 and December 1, 2019  
 Bloomberg Professional Services

Utilities, Inc of Florida  
 Traditional CAPM and ECAPM Results for the Proxy Group of Non-Price-Regulated Companies Comparable in Total Risk to the  
 Proxy Group of Seven Water Companies

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Proxy Group of Twelve Non-Price Regulated Companies	Value Line Adjusted Beta	Bloomberg Beta	Average Beta	Market Risk Premium (1)	Risk-Free Rate (2)	Traditional CAPM Cost Rate	ECAPM Cost Rate	Indicated Common Equity Cost Rate (3)
Casey's Gen'l Stores	0.70	0.81	0.75	11.94 %	2.03 %	10.99 %	11.73 %	11.36 %
Cboe Global Markets	0.65	0.83	0.74	11.94	2.03	10.87	11.64	11.25
Cracker Barrel	0.70	1.31	1.01	11.94	2.03	14.09	14.06	14.08
Campbell Soup	0.65	0.55	0.60	11.94	2.03	9.19	10.39	9.79
Dunkin' Brands Group	0.70	1.36	1.03	11.94	2.03	14.33	14.24	14.28
Darden Restaurants	0.75	1.72	1.23	11.94	2.03	16.72	16.03	16.37
Hormel Foods	0.60	0.41	0.51	11.94	2.03	8.12	9.58	8.85
Lancaster Colony	0.70	0.57	0.64	11.94	2.03	9.67	10.75	10.21
Lilly (Eli)	0.75	0.79	0.77	11.94	2.03	11.22	11.91	11.57
Lamb Weston Holdings	0.65	1.09	0.87	11.94	2.03	12.42	12.81	12.61
Altria Group	0.70	0.82	0.76	11.94	2.03	11.11	11.82	11.46
Valvoline Inc.	0.75	1.22	0.99	11.94	2.03	13.85	13.88	13.87
Mean			<u>0.83</u>			<u>11.88 %</u>	<u>12.40 %</u>	<u>12.14 %</u>
Median			<u>0.77</u>			<u>11.17 %</u>	<u>11.87 %</u>	<u>11.52 %</u>
Average of Mean and Median			<u>0.80</u>			<u>11.53 %</u>	<u>12.14 %</u>	<u>11.83 %</u>

Notes:

- (1) From Schedule DWD-5, note 1.
- (2) From Schedule DWD-5, note 2.
- (3) Average of CAPM and ECAPM cost rates.

Utilities, Inc of Florida  
Derivation of Investment Risk Adjustment Based upon  
Ibbotson Associates' Size Premia for the Decile Portfolios of the NYSE/AMEX/NASDAQ

Line No.	[1]	[2]	[3]	[4]
	Market Capitalization on April 30, 2020 (1) ( millions ) (times larger)	Applicable Decile of the NYSE/AMEX/NASDAQ (2)	Applicable Size Premium (3)	Spread from Applicable Size Premium (4)
1.	\$ 196,004	10	4.99%	
2.	\$ 5,657,608	4	0.79%	4.20%
		[A]	[C]	[D]
		Market Capitalization of Smallest Company ( millions )	Market Capitalization of Largest Company ( millions )	Size Premium (Return in Excess of CAPM)*
	Largest	1 \$ 31,090,379	\$ 1,061,355,011	-0.28%
		2 13,142,606	30,542,936	0.50%
		3 6,618,604	13,100,225	0.73%
		4 4,312,546	6,614,962	0.79%
		5 2,688,889	4,311,252	1.10%
		6 1,669,856	2,685,865	1.34%
		7 993,855	1,668,282	1.47%
		8 515,621	993,847	1.59%
		9 230,024	515,602	2.22%
	Smallest	10 1,973	299,748	4.99%

\*From 2020 Duff & Phelps Cost of Capital Navigator

Notes:

- (1) From page 2 of this Schedule.
- (2) Gleaned from Columns [B] and [C] on the bottom of this page. The appropriate decile (Column [A]) corresponds to the market capitalization of the proxy group, which is found in Column [1].
- (3) Corresponding risk premium to the decile is provided in Column [D] on the bottom of this page.
- (4) Line No. 1 Column [3] - Line No. 2 Column [3]. For example, the 4.20% in Column [4], Line No. 2 is derived as follows 4.20% = 2.22% - 0.79%.

Utilities, Inc of Florida  
Market Capitalization of Utilities, Inc of Florida and the  
Proxy Group of Seven Water Companies

Company	Exchange	[1] Common Stock Shares Outstanding at Fiscal Year End 2019 (millions)	[2] Book Value per Share at Fiscal Year End 2019 (1)	[3] Total Common Equity at Fiscal Year End 2019 (millions)	[4] Closing Stock Market Price on April 30, 2020	[5] Market-to- Book Ratio on April 30, 2020 (2)	[6] Market Capitalization on April 30, 2020 (3) (millions)
Utilities, Inc of Florida		NA	NA	\$ 60.48 (4)	NA		
Based upon Proxy Group of Seven Water Companies						324.1 (5)	\$ 196,004 (6)
Proxy Group of Seven Water Companies							
American States Water Co.	NYSE	36,847	\$ 16.325	\$ 601,530	\$ 79.370	486.2 %	\$ 2,924,516
American Water Works Company Inc	NYSE	180,813	33.853	6,121,000	121,690	359.5	\$ 22,003,118
California Water Service Group	NYSE	48,532	16.070	779,906	44,920	279.5	\$ 2,180,066
Essential Utilities, Inc.	NYSE	220,759	17.580	3,880,860	41,790	237.7	\$ 9,225,507
Middlesex Water Co.	NASDAQ	17,434	18.572	323,792	60,300	324.7	\$ 1,051,270
SIW Group	NYSE	28,457	31.275	889,984	59,530	190.3	\$ 1,694,016
York Water Co.	NASDAQ	13,015	10.310	134,185	40,320	391.1	\$ 524,761
Average		77,979	\$ 20.569	\$ 1,818,751	\$ 63,989	324.1 %	\$ 5,657,608

NA= Not Available

Notes: (1) Column 3 / Column 1.

(2) Column 4 / Column 2.

(3) Column 1 \* Column 4.

(4) Book common equity UIF's 2019 Annual Report to the FL PSC multiplied by the requested common equity ratio.

(5) The market-to-book ratio of Utilities, Inc of Florida on April 30, 2020 is assumed to be equal to the market-to-book ratio of Proxy Group of Seven Water Companies on April 30, 2020 as appropriate.

(6) Column [3] multiplied by Column [5].

Source of information: 2019 Annual Forms 10K  
yahoo.finance.com

**CERTIFICATE OF SERVICE**

HEREBY CERTIFY that on the 30th day of June 2020, a true and correct copy of the foregoing Prefiled Direct Testimony has been served via email to:

Walter Trierweiler, Esquire  
Office of General Counsel  
[wtrierwe@psc.state.fl.us](mailto:wtrierwe@psc.state.fl.us)

Stephanie Morse, Esquire  
Office of Public Counsel  
[morse.stephanie@leg.state.fl.us](mailto:morse.stephanie@leg.state.fl.us)

*/s/ Martin S. Friedman*

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MARTIN S. FRIEDMAN